



07-10-06

DAC #9

PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant: Mark Blackburn Examiner: to be assigned
Serial No.: 10/526,838 Group Art Unit: to be assigned
Filed: August 27, 2003 Docket No. 75390-010100
Title: LATCH ASSEMBLY WITH DEAD LATCH INDICATOR
Customer No.: 33717

CERTIFICATE UNDER 37 CFR 1.10
'Express Mail' mailing label number: EV 310125697 US
Date of Deposit: July 6, 2006

I hereby certify that this paper or fee is being deposited with the United States Postal Service 'Express Mail Post Office To Addressee' service under 37 CFR 1.10 and is addressed to MAIL STOP: PETITION, Commissioner for Patents, Post Office Box 1450, Alexandria, Virginia 22313-1450.


Name: Kelly Simpson

**REQUEST FOR RECONSIDERATION OF
DECISION TO DISMISS PETITION**

MAIL STOP: PETITION
Commissioner for Patents
Post Office Box 1450
Alexandria, Virginia 22313-1450

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JUL 13 2006

OFFICE OF PETITIONS

Sir/Madam:

It is respectfully requested that the decision to dismiss the Petition Under 37 C.F.R. § 1.47(b), filed April 10, 2006, be reconsidered.

Reconsideration of the failure to state the citizenship of the inventor is respectfully requested. The inventor cannot be located and his citizenship is unknown to the Petitioner. Submitted herewith is a declaration from Hans Juergen Esser, Research and Intellectual Property Manager for Petitioner, who clearly establishes a chain of title from the original owner to the assignee. The inventor employment contract is Exhibit B to the prior declaration of Mr. Esser, filed April 10, 2006. No other documents exist.

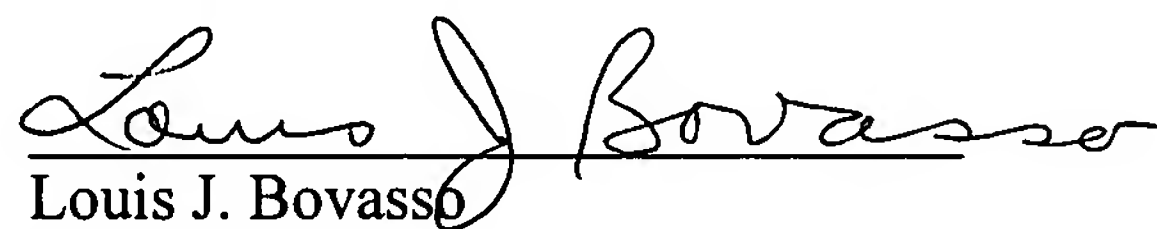
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24 JUL 2006
Legal Staff
International Division

An appropriate legal memorandum in the form of a declaration from Christopher David Schlicht, Partner of Petitioner's lawyers in Australia, is submitted. Mr. Schlicht clearly sets forth the legal basis for concluding that, under Australia law, Petitioner has a sufficient proprietary interest in the subject matter to justify the filing of the instant application.

Reconsideration is respectfully requested.

Respectfully submitted,

Date: July 6, 2006


Louis J. Bovasso
Reg. No. 24,075

Customer Number 33717
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Encls - Declaration of C. Schlicht
Declaration of H. Esser

LA 126571556v1



IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In Application of:)
Mark Blackburn)
Application No. 10/526,838) Examiner: not yet assigned
Filed: 3 March 2005)

For: LATCH ASSEMBLY WITH DEAD LATCH INDICATOR

Commissioner for Patents
PO Box 1450
Alexandria, VA 22313-1450

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JUL 13 2006

OFFICE OF PETITIONS

Sir:

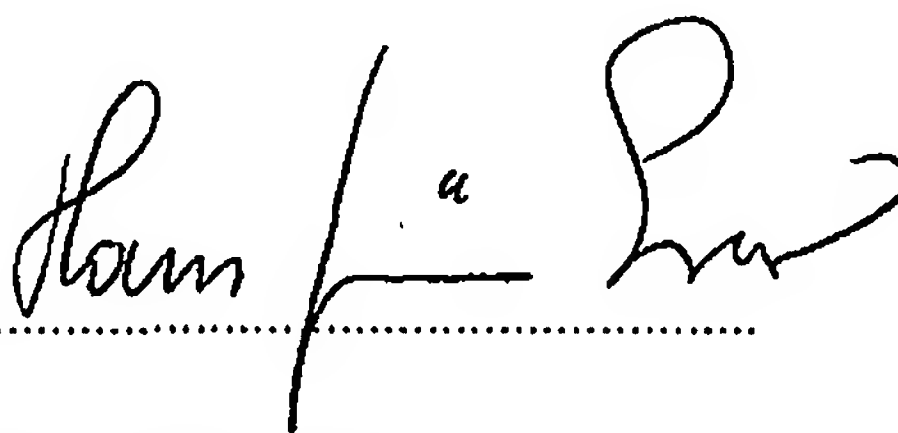
DECLARATION IN SUPPORT OF RENEWED PETITION UNDER 37 C.F.R. §1.47(b)

I, Hans Juergen Esser hereby declare as follows:

1. I am the Research and Intellectual Property Manager for Assa Abloy Australia Pty Ltd of 50 Edward Street, Oakleigh, Victoria 3166, Australia. I have previously provided a declaration dated 6 April 2006 in respect of this application ("my Previous Declaration").
2. The Latch Assembly with Dead Latch Indicator ("the Invention") which is the subject of this application was invented by Mark Blackburn. At the time of developing the Invention, Mr Blackburn was an employee of Lockwood Security Products Pty Ltd ("Lockwood"). Mr Blackburn's employment contract is displayed as **Exhibit B** to my Previous Declaration.
3. Mr Blackburn commenced employment with Lockwood on 8 October 2001. To the best of my recollection, he subsequently ceased employment with Lockwood on 4 February 2003. My Previous Declaration sets out the unsuccessful attempts I have made to contact Mr Blackburn following his departure from Lockwood.
4. During his time of employment with Lockwood, Mr Blackburn held the position of OEM Product Engineer and reported to the Product Development Manager. The role of Mr Blackburn, and other Product Engineers employed by Lockwood at the time, included the development and improvement of products, particularly locks.
5. During the course of his employment, Lockwood provided Mr Blackburn with all the necessary resources and materials to fulfil this role.
6. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that wilful false statements and the like

so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such wilful false statements may jeopardise the validity of the application or any patent issued thereon.

Date: 6th July 2006

A handwritten signature in black ink, appearing to read 'Hans Juergen Esser', written over a horizontal dotted line.

Hans Juergen Esser
Research & Intellectual Property Manager
ASSA ABLOY Australia Pty Ltd
50 Edward Street
Oakleigh, Victoria 3166
Australia



IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Application of:)

Mark Blackburn)

Application No. 10/526,838)

Examiner: not yet assigned

Filed: 3 March 2005)

For: LATCH ASSEMBLY WITH DEAD LATCH INDICATOR

RECEIVED

JUL 13 2006

Commissioner for Patents
PO Box 1450
Alexandria, VA 22313-1450

OFFICE OF PETITIONS

Sir:

DECLARATION IN SUPPORT OF RENEWED PETITION UNDER 37 C.F.R. §1.47(b)

I, Christopher David Schlicht hereby declare as follows:

1. I am partner of Phillips Ormonde & Fitzpatrick Lawyers, an Australian legal practice specialising in intellectual property law, of Level 21, 367 Collins Street, Melbourne, Victoria, Australia.
2. I am a solicitor admitted to practice in the Supreme Court of the state of Victoria and in the High Court and Federal Court of Australia. I am also a registered Australian Patent Attorney. I have practiced in the field of patent law in Australia since 1992.
3. There are no statutory provisions in Australia which deal expressly with the circumstances in which an employer of an inventor will hold the rights to an invention, and thus be entitled to the grant of a patent in respect of that invention. However, the well established position at common law is that where an invention is made by an employee in the course of their employment, the invention is the property of the employer in the absence of any contractual terms to the contrary.
4. This position was expressed clearly by the UK House of Lords in *Patchett v Sterling Engineering Coy Ltd* (1955) 72 RPC 50. A copy of this decision is attached as **Exhibit A** to this declaration. The position is summarised at page 58 of this decision as follows:

No doubt the respondent was the inventor and in the ordinary case the benefit of an invention belongs to the inventor. But at the time when he made these inventions he was employed by the Appellant as their Chief Designer and it is, in my judgment, inherent in the legal relationship of master and servant that any product of the work which the servant is paid to do belongs to the master. I can find neither principle nor authority for holding that this rule ceases to apply if a product of that work happens to be a patentable invention. Of course, as the relationship of

master and servant is constituted by contract, the parties can, if they choose, alter or vary the normal incidents of the relationship, but they can only do that by express agreement or by an agreement which can be implied from the facts of the case.

5. Both the Federal Court of Australia and the Supreme Court of Victoria have jurisdiction to decide upon whether an employer is entitled to rights in an invention made by an employee. Decisions of the UK House of Lords, although not binding on Australian Courts, are persuasive on both of these Courts.
6. The statement of law from *Patchett* has been approved by the Federal Court of Australia, for example in the decision of this Court in *Spencer Industries Pty Ltd* (2003) 58 IPR 425. A copy of this decision is attached as **Exhibit B** to this declaration. At paragraph [69], page 439, the above passage from *Patchett* is cited with approval.
7. Similarly, the decision of the Supreme Court of Victoria in *Victoria University of Technology v Wilson* (2004) 60 IPR 392 reflects the same position. A copy of this decision is attached as **Exhibit C** to this declaration. At paragraph [104], page 422, it is stated:

The law is well settled upon the position of an officer or employee who makes an invention affecting the business of his or her employer. It is an implied term of employment that any invention or discovery made in the course of the employment of the employee in doing that which he is engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, is the property of the employer and not of the employee.

8. I am not aware of any decision of an Australian Court which has expressed a view contrary to those cited above.
9. According to the accompanying declaration of Mr Esser:
 - Mr Blackburn was employed by Lockwood Security Products Pty Ltd ("Lockwood") as an OEM Product Engineer;
 - Mr Blackburn's ordinary duties in this role included the design and development of new locks;
 - The Latch Assembly with Dead Lock Indicator ("the Invention") was developed by Mr Blackburn whilst employed by Lockwood;
 - Lockwood supplied Mr Blackburn with the necessary materials and resources to develop the Invention.

10. Based on these facts and the authorities cited above, I am of the clear opinion that an Australian Court would find that Lockwood (now Assa Abloy Australia Pty Ltd) would be entitled to ownership of the Invention, and would be entitled to the grant of a patent in respect of the Invention.
11. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that wilful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such wilful false statements may jeopardise the validity of the application or any patent issued thereon.

Date: 6 July 2006



.....

Christopher David Schlicht
Partner
Phillips Ormonde & Fitzpatrick Lawyers
Level 21, 367 Collins Street
Melbourne, Victoria
Australia

Patchett v. Sterling Engineering Coy. Ltd.

IN THE HOUSE OF LORDS.

Before VISCOUNT SIMONDS and LORDS PORTER, REID, TUCKER and
SOMERVELL OF HARROW.

2nd, 6th, 7th, 8th and 9th December, 1954, and 20th January, 1955.

PATCHETT v. STERLING ENGINEERING COY. LD.*

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Patent—Master and servant—Employee's claim in action to royalties or remuneration—Employers' claim to patents—Apportionment—Res judicata—Patents Act, 1949, Sec. 56 (1) & (2).

On 1st January, 1942, P. entered into the employment of S.E. Ltd. as manager of their armaments department, and later became head of their design and development section dealing with domestic appliances. In 1942 an agreement was made by which he was to receive payment of one-half per cent. of the selling price of all articles manufactured under patents for inventions made by him. In 1943 and 1944 further agreements were made with regard to inventions for automatic weapons known as "Paraguns" and it was a term of the 1944 agreement that the agreement made in 1942 should be cancelled. In 1947, at the time of P.'s transfer to the "domestic" department, there were further discussions as to the patent position, but these proved abortive.

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The patents relating to "Paraguns" did not come into question in the proceedings mentioned below, which related only to patents for what the parties termed "domestic inventions".

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In 1951 P. commenced an action against S.E. Ltd. in which he alleged (inter alia) that apart from the agreements mentioned above there had been an "agreement and understanding" made prior to his engagement that he should receive reasonable remuneration for any inventions made by him whilst in the service of S.E. Ltd. He also claimed rectification (on the ground of mutual mistake or alternatively of unilateral mistake) of that part of the agreement of 1944 which purported to cancel the agreement of 1942. S.E. Ltd. counterclaimed for an order for the transfer of the patents for the "domestic inventions", which had been taken out in the joint names of P. and of S.E. Ltd. or of a subsidiary of that company.

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Roxburgh, J., found that though there had been an "understanding" that P. should receive reasonable remuneration for inventions made by him, there was no concluded agreement to this effect. He also found that there was no ground for rectification of the 1944 agreement. Accordingly he dismissed the action, but stated that he did so without prejudice to the position with regard to the counterclaim.†

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After the dismissal of the action P. amended his defence to the counterclaim, claiming (inter alia) that the benefit of the inventions made by him should be apportioned under the provisions of Sec. 56 (2).

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* The title of this case in the House of Lords was *Sterling Engineering Coy Ltd, (Appellants) v. Patchett (Respondent)*.

† See (1953) 70 R.P.C. 184.

Patchett v. Sterling Engineering Coy. Ltd.

The counterclaim was heard by Danckwerts, J., who made an order for the transfer of the patents to S.E. Ltd. With regard to Sec. 56 (2) he held that he was precluded by the order of Roxburgh, J., from holding that P. was entitled to any remuneration for the "domestic inventions", otherwise there might have been a case for apportionment.*

P. appealed to the Court of Appeal against the judgment of Danckwerts, J., on the counterclaim. There was no appeal against the dismissal of the action by Roxburgh, J.

Held by the Court of Appeal (inter alia):

(1) That the 1944 agreement should not be held to have affected the "agreement and understanding" between the parties alleged to have been arrived at in December, 1941.

(2) That though such "agreement and understanding" might not constitute a legally enforceable agreement, since it was of the nature of an agreement to make an agreement, it was sufficient to negative or qualify the ordinary presumption that an employer is equitably entitled to the whole benefit of inventions made by an employee in the course of his employment.

(3) That this entitled the Court to make an apportionment of the benefit of the patents under the provisions of Sec. 56 (2), and that in the circumstances the Court should do so.†

Leave to the Defendants to appeal to the House of Lords was refused by the Court of Appeal, but was granted by the Appeals Committee of the House of Lords on the condition that the Appellants should pay the Respondent's costs of such appeal in any event.

Held by the House of Lords:

(1) That Sec. 56 (2) has no effect unless the tribunal is satisfied that neither party is solely entitled to the benefit of the invention.

(2) That it is an implied term in a contract of employment that an employee is a trustee for his employer of any invention made in the course of his duty as employee.

(3) That such implied term can only be displaced by an agreement having legal force to the contrary effect.

(4) That in the present case there was no such agreement, with the result that the employers were solely entitled to the benefit of the inventions.

(5) That the appeal should be allowed and the judgment of Danckwerts, J., restored.

Observations were made on the doctrine of *res judicata*.

In the Opinion of Viscount Simonds reference was made to *Adamson v. Kenworthy* (1932) 49 R.P.C. 57.

This appeal from the judgment of the Court of Appeal, reported at (1954) 71 R.P.C. 61,† came on for hearing before Viscount Simonds and Lords Porter, Reid, Tucker and Somervell of Harrow on 2nd December, 1954. *Shelley*, Q.C., and *Guy Aldous* (instructed by *Cosmo Cran & Coy.*), appeared for the Appellants (Defendants). *Wilberforce*, Q.C., and *E. Irvine Goulding* (instructed by *Gedge, Fisk & Coy.*), appeared for the Respondent (Plaintiff).

Shelley, Q.C. §—The Respondent here is saying: I will not assign the patents to you unless you pay a royalty for their use. He relies upon Sec. 56 (2) of the Patents Act, but Sec. 56 (2) does not found a defence of that sort. If it did, for Section 56 (2) to apply the Court must not be satisfied that the invention belongs to one party only. Here the

* See (1953) 70 R.P.C. at p. 195.

† See (1954) 71 R.P.C. 61.

‡ In the Courts below the title of the case was *Patchett v. Sterling Engineering Coy. Ltd.*

§ Counsel also discussed other points (especially *res judicata*) not material to this report.

Patchett v. Sterling Engineering Coy. Ltd.

inventions belong to the employer. The Respondent made them in the course of his employment, and it is an implied term of the contract of employment that such inventions belong to the employer. The Respondent relies on an "understanding and agreement" that he should be remunerated: but it has been held that there was not an agreement, and no "understanding" of contractual force. The letters on which the Respondent relies mean just what they say: the parties hoped to reach agreement about these matters in due course. The agreement reached did not cover these inventions. The patents are in joint names, and this enables the Appellants to manufacture for their own benefit without accounting to the Respondent. It is wrong that a claim for royalty (which would put the Appellants in a worse position than if the counterclaim failed and the patents stayed in joint names) should be raised as a defence to the counterclaim. [Lord Simonds.—Is the rule that inventions belong to the employer an implied term?] Yes. [Lord Simonds.—Are you saying this, that the servant enters the employment knowing that unless the contrary is agreed this term will be implied; so it is implied?] Yes. [Counsel referred to: *Triplex v. Scora* (1938) 55 R.P.C. 21; *Vokes v. Heather* (1945) 62 R.P.C. 135; *British Celanese v. Moncrieff* (1948) 65 R.P.C. 165.] [Lord Reid.—If the parties are not silent as to ownership of the employee's inventions, but say: we will settle this later, then *prima facie* this should exclude any implied term.] *Shelley*.—The term is implied unless the parties, by agreement, exclude it. In this case, there was no concluded agreement.

Aldous followed, on the meaning of "apportion".

Wilberforce, Q.C., for the Respondent.—The correspondence between the parties was at least effective to exclude any implied term. It follows that the implied term can only form part of the agreement if it was re-introduced in 1947, when the earlier agreements were cancelled; and only a further express agreement could so re-introduce it. I say that as a result the implied term does not form part of the Respondent's contract of service, and the ownership of his inventions is not governed by contract at all. Sec. 56 (2) must then apply, on any meaning of it. There are three possible meanings of the subsection: 1. That it applies unless, after hearing the evidence, the Court can find on the basis of the existing law that one or other party is entitled to the invention to the exclusion of the other. This excludes 95 per cent. of cases: it makes the subsection apply only where there is an agreement to share the inventions and the proportions are not specified. [Lord Reid.—Would not Sec. 54 govern such a case?] Only where there is a patent in joint names. [Lord Tucker.—Mr. *Shelley* mentioned another class of case: where it is difficult to ascertain on the facts who is the real inventor.] [Lord Reid.—No; for the subsection only applies where the invention was made by the employee.] Mr. *Shelley* also suggested a class of case, where the invention was made partly inside, partly outside the employment; but there the Court would have to decide: inside or outside. 2. The power under the subsection exists in doubtful cases where the matter is not expressly dealt with by contract: altering the law so that there is no longer any implication from the parties' failure to deal expressly with the point. 3. The subsection should be read as saying: "Unless in all the circumstances of the case the Court thinks that one party is justly entitled to the exclusion of the other": giving a wide discretionary jurisdiction, even to over-ride an express contract. Considering the mischief the subsection was intended to remedy, one would expect meaning 3.; but on the language, 1. is the only acceptable meaning. But it covers the present case in which there is an agreement to agree, not quantified. If Sec. 56 (2) did not apply, the counterclaim would fail: for the implied term being excluded, and there being no legally enforceable agreement governing the position, the parties would be left to their rights under Sec. 54. [Lord Simonds.—You must take yourself out of being trustee. If the exclusive interest is not in the employer, it must be in you: and there is no enforceable agreement under which any of it can be in you.] Sec. 54 applies, if there is nothing to displace it. I have only to show that the implied term has been excluded, not that it has been replaced by anything. [Lord Tucker.—The Court must decide; all the materials are before it; it cannot simply say: I am not satisfied.] [Lord Porter.—You are saying that there was a contract between the parties to exclude the implied term; but *Roxburgh, J.*, decided that there was no contract.] There was no contract upon which the Plaintiff could sue; but there was an understanding that the implied term should go. [Lord Porter.—There would have to be a contract to wipe

Patchett v. Sterling Engineering Coy. Ltd.

out the implied term.] The Company must establish an implied obligation to hand over the inventions. I need only show that there was no meeting of minds to that effect, or a meeting of minds to the contrary. [Lord Simonds.—I doubt if this is an implied term in that sense; it is inherent in the contract of service.] I submit that it is an implied term: a purely contractual right. [Lord Reith.—Inherent in the relationship the contract creates.] [Lord Simonds.—This is miles from the *Moorcock** type of implication.] The force of the term must be contractual; and it follows that it can be excluded, as in any other case of implication. [Lord Simonds.—You must put something in the place of the term you remove.] I have two answers: 1. The term was qualified (by an obligation to agree a benefit) and not excluded. 2. Although Mr. *Patchett* is not obliged to assign he is obliged to agree. If the "understanding" has no effect whatever, only my third meaning for Sec. 56 (2) can help Mr. *Patchett*; but if it has any effect at all, he is entitled to apportionment on any meaning of the subsection.

Goulding followed.

Shelley, Q.C., replied.—This is not an implied term in the ordinary sense, only in the sense that evidence may be needed to show the nature of the job the servant is employed to do. Improvement of design being Mr. *Patchett's* job, no understanding inconsistent with that can be admitted unless so clear as to modify the nature of the job. Here, there is no indication that the company would ever have contemplated that his designs should not belong to them: the only discussion related to extra remuneration, and his claim for extra remuneration is *res judicata*.

The report of the Appellate Committee was considered on 20th January, 1955.

Viscount Simonds.—My Lords, this appeal is brought by the *Sterling Engineering Coy., Ltd.*, whom I will call "the Company", from an order of the Court of Appeal which reversed an order of *Danckwerts, J.* The Respondent is *George William Patchett* and the appeal relates to six inventions made by him while in the employment of the Company, which were the subject of patents registered in their joint names.

The Respondent in January, 1942, entered the employment of the Company as a production engineer at a salary of £1,200 a year. The Company was then and for some time afterwards employed exclusively on armament. In December, 1941, before any contract of service was made, there was an exchange of letters and an interview between the parties in regard to any patentable invention that the Respondent might make while in the Company's employment. It is clear that no agreement was made, but throughout the proceedings, which have continued in an appeal to this House, it has been constantly alleged that an "understanding" was reached, and it is upon that understanding that the Respondent has relied for the relief refused to him by *Danckwerts, J.*, but granted by the Court of Appeal. At the outset I must admit that I find it difficult to appreciate how an understanding, which is admittedly not an agreement, can be made a ground of claim, though it may, I daresay, in certain circumstances be a shield. But the facts of the present case are so unusual, and the course which the action took so remarkable, that I must closely examine what this understanding was.

On the 11th December, 1941, after a previous exchange of letters and an interview to which I need not refer, the Respondent wrote a letter to the Company in which the following passage occurred: "Patents. This is always a delicate problem between employer and employee and I suggest the following two methods of dealing with this question: (a) Any invention for which I am responsible will be provisionally patented by me and be transferred to you for a sum payment to be mutually arranged at the time. (b) Any invention for which I am responsible will be patented by you in the name of the firm and myself. A sum to be paid as royalty will be fixed and a minimum yearly royalty decided on. In the event of the minimum royalty not being paid I shall be free to exploit the patent. Any exploitation of such patent will entail a participation of the proceeds by both patentees. This participation will also apply in any case where the manufacturing rights are granted to other persons" and the letter then dealt with so-called "special constructions" with which

* (1889) 14 P.D. 64.

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we are not concerned. To this letter the General Manager of the Company, a Mr. Redgrave, replied on the 13th December, 1941, by a letter which contained the following passage relating to patents and no more: "Patents. I agree that this is always a problem but feel confident "when we next meet we shall have no difficulty in making a mutually satisfactory settlement".

It does not appear that any further letters passed between the parties and it is certain that when they next met no arrangement of any kind was made. On the 1st January, 1942, the Respondent took up his duties as production engineer without any written service agreement. That no arrangement was made nor, as I think, in the meantime discussed is clear from the next letter to which I refer, for on the 31st July, 1942, the Respondent, having designed a gun in the course of his employment, which came to be called a "paragon", wrote to the Chairman of the Company as follows: "This gun was designed by me without any instructions from the Company and I think certain features are patentable. Before joining the Company the question of patents . . . was discussed but no definite arrangement made. "I think this is a suitable opportunity for some arrangement to be arrived at".

The Company accepted this suggestion, and after an interview on the 5th August, 1942, an agreement which has conveniently been called the 1942 agreement was made. Its terms were contained in two letters of the 5th and 12th August, and provided (*inter alia*) that, where the Respondent was primarily responsible for any inventions which were patentable, patents should be applied for in the two names (*i.e.*, of the Respondent and the Company) and that the Company should pay the Respondent a royalty of $\frac{1}{2}$ per cent. on the sale price of any articles made by them which used any such patent. This agreement was general in its scope and extended beyond the invention which had been its immediate cause. In 1943 the Respondent invented an automatic trigger mechanism for the purpose of the paragon, and in regard to the patent for this invention a specific agreement, known as the 1943 agreement, was made. I think it unnecessary to say more about it than that its terms were more favourable to the Respondent than those of the 1942 agreement.

In 1944 yet another agreement was made. The Respondent had made eight more patentable inventions in connection with the paragon and the new agreement in effect provided that these inventions and any further inventions which the Respondent might make during the term of his employment in relation to machine carbines should be comprised in the 1943 agreement. It also contained a term, which, as will be seen, came to be of great importance, that the 1942 agreement should be cancelled and of no further effect.

Some modification of the 1943 agreement was made in 1945, but no other arrangement was made and there the matter rested, when in 1947, the Company having turned to the arts of peace, the Respondent was offered and accepted the leadership of the department concerned with the design and development of domestic electrical appliances. It was not disputed that in this capacity it was his duty to put his inventive faculty and skill at the service of the Company. Between 1947 and 1950 the Respondent in the course of his employment made six inventions in connection with domestic appliances (which I will call "the domestic inventions") in respect of which patents were applied for in the joint names either of the Respondent and the Company or of the Respondent and a company controlled by the Company, a variation which can for the purpose of this appeal be disregarded. The applications were made at the expense of the Company, but the Respondent, as the inventor, was, until the Patents Act of 1949 came into force, a necessary party. The 1942 agreement had been cancelled, the later agreements did not cover the domestic inventions and in these circumstances the Company refused the reiterated demands of the Respondent that some payment should be made to him in respect of them.

The Respondent accordingly commenced the action out of which this appeal has arisen, and I must trouble your Lordships with some details of the pleadings in the action and consequent counterclaim, for the form that they have taken has not been the least of the causes of trouble in this litigation.

The statement of claim (which was amended and reamended) opened with a plea that at the time of his employment it was "understood and agreed" between the Respondent and the Company that he should receive reasonable remuneration in respect of all inventions

Patchett v. Sterling Engineering Coy. Ltd.

made by him while in the employment of the Company which should be used by the Company. It then set out the agreements of 1942, 1943 and 1944. It specifically stated the cancellation clause in the 1944 agreement to which I have referred and alleged that this clause was inserted by mutual mistake. In his formal claim the Respondent claimed a royalty of $\frac{1}{2}$ per cent. on the selling price of all articles in which any of his inventions were made use of (other than those subject to the 1943 or 1944 agreements) or alternatively reasonable remuneration or royalties in respect thereof, and in the further alternative rectification of the 1944 agreement so as to exclude the cancellation clause or rescission of that agreement. This is a puzzling plea: for what is meant by an "understanding and agreement"? What is the efficacy of an understanding without an agreement, or what added force an understanding gives to an agreement, I do not understand. But the action was allowed to go forward in this fashion after an ineffectual attempt had been made to discover upon an application for particulars what was the understanding, what the agreement?

The Company duly put in its defence, denying any such understanding or agreement as had been alleged and further denying that there had been such a mistake as to justify rectification or rescission of the 1944 agreement. It also put in a counterclaim alleging that the domestic inventions had been made by the Respondent in the course of his employment, and that the Company was accordingly entitled to have the Respondent's interest in the relevant patents transferred to it, and claiming the appropriate declaration and order.

By his reply and defence to counterclaim the Respondent challenged the plea that he was employed to make inventions in connection with domestic appliances. This was clearly contrary to the fact and does not appear to have been pursued. He further alleged that in regard to any inventions other than those comprised in the 1943 or 1944 agreements it was the "intention of the parties" that the 1942 agreement should continue to operate "or alternatively should not be governed by any agreement and should accordingly remain the sole property of" the Respondent. He further pleaded that the domestic inventions were not made in the course of his employment, a plea clearly incapable of being sustained. Further pleas were made by amendment but I do not mention them yet, for the pleadings were in the form that I have outlined when the case came on for hearing before *Roxburgh, J.* Before that learned Judge the case took a most unfortunate course, for owing to the exigencies of time or for some other reason it was found possible only to dispose of the action, the counterclaim being left over for hearing after the immediately ensuing vacation. So far as the action was concerned, an order was made whereby it was dismissed with costs and that was all. And it is clear that whatever else your Lordships may look at in the event of a plea of *res judicata* being raised, you are at least entitled to know what were the issues raised in the pleadings in the action, and you know therefore that the Respondent failed to establish his right to remuneration under any heading of claim or to rectification of the 1944 agreement. This order was duly drawn up and the Respondent did not appeal from it. I will only add here, since some reliance has been placed upon it and certainly some confusion has arisen out of it, that in the course of his judgment *Roxburgh, J.*, said, "At the time of his engagement it was understood between the Plaintiff and the Defendant Company that the Plaintiff should receive a reasonable remuneration in respect of all inventions made by him while in the employment of the Defendant Company which should be used by the Defendant Company. I have used the word 'understood' advisedly. There is a counterclaim, with which I am not yet in a position to deal, and I have used that vague word in order not in any way to prejudice the position with regard to the counterclaim". The learned Judge having decided that there was no agreement for the payment of remuneration, it is difficult to see what effect in the law is to be found in an understanding—particularly where the only plea had been of an "understanding and agreement".

Unfortunately, *Roxburgh, J.*, had other duties in the following term and it fell to *Danckwerts, J.*, to hear the counterclaim. In the course of the hearing before him the defence to counterclaim was allowed to be amended by pleading once more the understanding and agreement alleged in Para. 1 of the statement of claim, and by this final plea which found favour with the Court of Appeal "In the alternative to the contentions herein set out the Plaintiff will claim that the benefit of the inventions referred to in the counterclaim be apportioned

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"under Section 56 (2) of the Patents Act 1949". This amendment was, as I say, allowed and it is too late to protest that it should not have been pleaded by way of defence to counterclaim but, if raised at all, should have found a place in the statement of claim.

It is convenient at this stage to set out the subsection in question which was for the first time introduced into the patent laws by the Act of 1949. It provides as follows:—"Section 56 (2). In proceedings before the court between an employer and a person who is or was at the material time his employee, or upon an application made to the comptroller under subsection (1) of this section, the court or comptroller may, unless satisfied that one or other of the parties is entitled, to the exclusion of the other, to the benefit of an invention made by the employee, by order provide for the apportionment between them of the benefit of the invention, and of any patent granted or to be granted in respect thereof, in such manner as the court or comptroller considers just".

The task of disentangling the real issues from these pleadings is not made easier by the plea strenuously urged by the Appellants that the doctrine of *res judicata* applied to bar the Respondent's defence to the counterclaim. I will dispose of this matter very shortly, for I do not think that any decision upon it is necessary for the determination of this appeal. I am glad to think so, for in a case like this where the whole matter in dispute, whether arising on claim or counterclaim, should and would, but for an unfortunate accident, have been disposed of at one and the same time, and where the learned Judge who heard the action made certain reservations with a view to their further consideration on the counterclaim, I should be very reluctant to apply the ordinary rules of *res judicata*. I am not aware of any case in which such a thing has happened before, and may be permitted to hope that it will not happen again. It is unnecessary to say more because it became clear to me as the case proceeded that the counterclaim must succeed, and that the same considerations which secured its success were fatal to a claim under Sec. 56 (2) of the Patents Act, 1949.

The patents in question stand in the joint names of the Company (or the company which it controls) and the Respondent, i.e. in the names of employer and employee. It is elementary that, where the employee in the course of his employment (i.e. in his employer's time and with his materials) makes an invention which it falls within his duty to make (as was the case here) he holds his interest in the invention, and in any resulting patent, as trustee for the employer unless he can show that he has a beneficial interest which the law recognises. Here the Respondent first asserted the "understanding and agreement" to which I have so often referred. It was for reasonable remuneration and nothing else. It failed: there was no "agreement" and "understanding" meant nothing. If it had succeeded, it would still have afforded no defence to the counterclaim, though it might have supported a claim for other relief. Then it was pleaded that the 1942 agreement still governed the situation. This plea too failed, nor, had it succeeded, would it have afforded a defence. Next it was pleaded that it was the intention that the inventions should remain the sole property of the Respondent: this plea was wholly inconsistent with the first plea of an agreement for remuneration and does not appear to have been pressed at any stage of the proceedings. Then it was pleaded that the inventions were not made by the Respondent in the course of his employment, a plea clearly unsustainable. In this bewildering medley of pleas I find nothing to justify the view that the Respondent was not a trustee for the Company of his interest in the patents. Ultimately, I think, the argument resolved itself into the proposition that the so-called understanding, though it did not create any legal obligation yet was sufficient to exclude any term of the employment by which inventions made by the employee would belong to the employer. It was not clear what the result of this would be, but, as there is no ground for suggesting that the inventions were to be the exclusive property of the Respondent, I can only suppose there would be a deadlock until the parties could come to some agreement. But I think that this argument is based on a radical fallacy.

It is true enough that the rule that inventions made by an employee belong to the employer is sometimes spoken of as an implied term of the contract of service. In a sense no doubt it is an implied term in that it is not written out in the contract of service, but it is a term which, given the conditions which are here present, namely, inventions made by the employee in the course of his employment which it was part of his duty to make, the law imports

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into the contract. It appears to me that it is only an implied term in the same sense that it is an implied term, though not written at large, in the contract of service of any workman that what he produces by the strength of his arm or the skill of his hand or the exercise of his inventive faculty shall become the property of the employer. If the employment is of a designer that which he designs is thus the property of the employer which he alone can dispose of. If it is patentable it is for the employer to say whether it shall be patented, and he can require the employee to do what is necessary to that end. And if it is patented in their joint names, the employee holds his interest as trustee for the employer. See *Adamson v. Kenworthy* (1932) 49 R.P.C. 57. If this is, as I think it clearly is, the law, it can only be excluded by an express agreement that it shall be varied and some other legal relationship created. I will not go through the story again, but it appears to me impossible to rely on an understanding, which, vague enough in 1941, had, after it had been superseded by the agreements of 1942, 1943, 1944 and 1945, and after in 1947, the Respondent had substantially changed the area of his employment, become so tenuous as to be little more than an aspiration of the Respondent that he would receive some recognition beyond his salary for the work that he was paid to do. I find nothing in all this which would justify the Court in holding that the ordinary rule governing the relation of master and servant was displaced. I am therefore of opinion that the counterclaim should succeed, subject only to what may be said about Sec. 56 (2) of the Patents Act, 1949.

I turn then finally to that section. It may be said, if it has any application to the present case, to afford a defence in this limited sense. It would be a work of supererogation to require the Respondent to transfer his interest in the patents to the Company if the next step was to be an apportionment involving perhaps a retransfer. But in my opinion the subsection has no application. I will assume that the present action and counterclaim were proceedings before the Court between an employer and employee, in which its new and special jurisdiction might be invoked. But that jurisdiction only arises if the Court is not satisfied that one or other of the parties is entitled to the exclusion of the other to the benefit of an invention. The word "entitled" refers to legal right. The Court must therefore determine the legal rights just as it must determine them in any other case, and if the issue is, as it is here, whether one party is entitled to the exclusion of the other, it must decide that question "Aye" or "No" and, having decided it in the affirmative, it is not for the Court to say that it is not satisfied. So here, having examined every plea which has been adduced to support the contention that the Respondent has some beneficial interest in the patents and rejected them all, the Court must declare itself satisfied that the Company is entitled, to the exclusion of the Respondent, and decline the jurisdiction conferred by the subsection.

It was urged that this construction of the subsection reduces its operation to negligible proportions. This was denied by Counsel for the Company who gave your Lordships examples of cases where he said the section might still operate. I am not concerned to examine this question, for the scope of the section may be a matter of further debate and I would not prejudice any view of it. It is sufficient to determine, as I do, that it can have no operation in the present case. If, in the result, its scope is less wide than may have been expected, that is not the affair of the Courts. I may add that the construction which I have adopted of Subsec. (2) is strongly supported by Subsec. (1) which refers to the "rights", meaning thereby the legal rights, of the parties.

In the result I move that the appeal be allowed and the order of the Court of Appeal discharged, except so far as it relates to costs, and the order of *Danckwerts, J.*, restored. In accordance with the conditions imposed upon the granting of leave to appeal, the Company will pay the Respondent's costs of this appeal.

My Lords, my noble and learned Friend, Lord Porter, who is unable to be here, has asked me to say that he concurs in my Opinion and in the Motion which I make.

Lord Reid.—My Lords, Sec. 56 is a new section in the Patents Act, 1949. It begins by providing a relatively cheap and speedy method for determining disputes between employer and employee. It is I think clear that under Subsec. (1) what has to be determined is the legal right of the parties, and that this subsection confers no power to override legal rights.

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or to substitute for a decision on legal rights a determination of what may be thought just or fair in all the circumstances, but it was argued for the Respondent that Subsec. (2) does confer a power to do this.

Subsection (2) cannot be applied at all if the Court or Comptroller is "satisfied that one
"or other of the parties is entitled, to the exclusion of the other, to the benefit of an invention 5
"made by the employee," but if the tribunal is not so satisfied then it has power to apportion the benefit of the invention. The ordinary meaning of the word "entitled" is entitled as a matter of legal right, and even if the word could in some contexts be held to mean fairly or justly entitled in all the circumstances, some very cogent reason for so construing it would be required to justify an inference that Parliament intended to take the very unusual 10
course of subordinating the legal rights of the parties to the discretion of the Court or the *Comptroller*—particularly as there is no indication of any considerations to which the tribunal should have regard in exercising its discretion. But in the subsection I can see no more than a faint indication that such might have been the intention: to say that a Court must be satisfied of something is more appropriate with regard to a matter of fact or opinion than 15
with regard to a matter of legal right. But the phraseology creates no real difficulty if the subsection is held to refer to legal rights alone. The only real difficulty is that on this basis the scope of the subsection is very limited. In the absence of agreement I do not see how there can be a case where the one party is not entitled to the whole benefit to the exclusion of the other; and if that be right the subsection can only come into operation if there has 20
been some agreement express or implied to share the benefit. And, if there is such an agreement and the subsection gives no authority to override legal rights, the subsection cannot be used to give to either party more or less than that to which the agreement entitles him. It is, I suppose, possible that the apportionment authorised by the section might in some cases afford a convenient method of working out the terms of the parties' agreement 25
"in such manner as the Court or Comptroller considers just"; but that is such a small matter that one is tempted to guess that Parliament had some wider intention. But what that intention may have been cannot in my judgment be found by any method of construction or interpretation which is open to us. Even if it could be shown that there is no case to which on this interpretation the subsection could apply in practice I would still find myself 30
unable to discover any other meaning which could properly be given to it.

Accordingly before the Respondent can invoke this subsection he must point to something which would prevent the Court from being satisfied that the legal right to the benefit of the inventions with which this case is concerned belongs to the Appellants. No doubt the Respondent was the inventor and in the ordinary case the benefit of an invention belongs 35
to the inventor. But at the time when he made these inventions he was employed by the Appellants as their Chief Designer and it is, in my judgment, inherent in the legal relationship of master and servant that any product of the work which the servant is paid to do belongs to the master: I can find neither principle nor authority for holding that this rule ceases to apply if a product of that work happens to be a patentable invention. Of course, as 40
the relationship of master and servant is constituted by contract, the parties can, if they choose, alter or vary the normal incidents of the relationship, but they can only do that by express agreement or by an agreement which can be implied from the facts of the case. The question in the present case therefore is whether there is anything to justify a finding that the parties agreed to alter the normal incidents of the Respondent's contract of employment, for 45
it was not disputed that if the ordinary rule applies the patents in question belong wholly to the Appellants.

There are cases where it has been said that the employer's right to inventions made by an employee in the course of his employment arises from an implied term in the contract of employment. Strictly speaking, I think that an implied term is something which in the 50
circumstances of a particular case the law may read into the contract if the parties are silent and it would be reasonable to do so: it is something over and above the ordinary incidents of the particular type of contract. If it were necessary in this case to find an implied term in that sense I should be in some difficulty. But the phrase "implied term" can be used to denote a term inherent in the nature of the contract which the law will imply 55
in every case unless the parties agree to vary or exclude it. I think that it has probably

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been used in that sense in the cases founded on by the Respondent, and I am of opinion that it is only in that sense that the Appellants' right in this case can be said to arise from an implied term.

The Respondent therefore could only succeed if he could establish some agreement—express or to be implied—by which the ordinary incidents of his contract of employment were altered. But all that he has to rely on is a so-called "understanding". I do not think that it can be put more favourably for the Respondent than that he and the Appellants agreed to try to reach agreement about this matter as soon as possible. And in fact they did reach such an agreement in 1942: they agreed that the Respondent should receive a "royalty", the patents themselves remaining the property of the Appellants. But that agreement was cancelled in 1944, and the new agreement for royalties which was then made did not cover the patents now in question; it only applied to certain other patents. I cannot find any basis for any implied agreement which would give to the Respondent any rights in respect of the patents now in question. It appears to me that after the 1942 agreement was cancelled the position with regard to anything not covered by the 1944 agreement was that the ordinary rule inherent in the parties' relationship of master and servant must apply, and therefore the patents in question belong to the Appellants and the Respondent has no defence to their counterclaim. I therefore agree that this appeal should be allowed.

Lord Tucker.—My Lords, I am in complete agreement with the Opinion that has just been delivered by my noble and learned friend on the Woolsack, and would desire to add only a word or two about the judgment of the Court of Appeal.

That Court held that the "understanding" of December, 1941, contemplated that any arrangement made would recognise the Defendants' right to the benefit of any invention, or patent granted in respect thereof, subject to payment of a sum to be agreed by the Defendants to the Plaintiff for its use or exploitation, but that as no agreement was ever reached as to the amount or nature of the payment to be made the Defendants—apart from Sec. 56—would be entitled in accordance with the ordinary implication to the benefit of the inventions and patents without any obligation to make any payment in respect thereof to the Plaintiff, since the Court—apart from Sec. 56—could not impose upon the parties terms to which they had never agreed. The Court, however, reached the conclusion that Sec. 56 gave them this jurisdiction. They said: "It seems to us that the language of the subsection necessarily implies that there may be cases in which the Court may not be satisfied that the benefit of a disputed invention belongs to one of the parties to the exclusion of the other, although there is no agreement between them defining the proportions or manner in which such benefit is to be shared".

For the reasons which have been stated by my noble and learned friend, I am unable to accept an interpretation of Sec. 56 which would enable the Court—in the absence of express agreement—to vary the terms which the law imports into the contract of service between master and servant.

Lord Somervell of Harrow.—My Lords, I agree.

It was ordered that the order appealed from should be reversed, except as to costs, and the judgment of *Danckwerts, J.*, restored, the Appellants to pay the Respondent's costs in the House of Lords.

SPENCER INDUSTRIES PTY LTD v COLLINS and Another

5 **FEDERAL COURT OF AUSTRALIA**

BRANSON J

10–12 March, 4 June 2003 — Sydney

10 [2003] FCA 542

15 **Patents — Petty patent — Appeal from decision of delegate of Commissioner of Patents in respect of (a) notice that petty patent invalid, and (b) application for extension of term of petty patent — Entitlement to patent — Whether employer entitled to benefit of employee's invention — Whether invention made in the course and scope of employment.**

20 Although the petty patent system was abolished from 24 May 2001 when the Patents Amendment (Innovation Patents) Act 2000 (Cth) came into operation, Sch 2 of that amending legislation provided that the law to be applied in this appeal was the Patents Act 1990 (Cth) (the Act) as in force immediately before the commencement of the amending legislation.

25 The first respondent (Mr Collins) was employed as a sales manager by the applicant (Spencer Industries) in February 1990. Technically from August 1990 he was employed by a related company Bijay Pty Ltd (for the purposes of payment of salary). During 1996 Mr Collins developed the invention (an assembly for removing the tread from worn tyres) but his attempts in November 1996 to interest Mr Pincott of Spencer Industries in the invention were unsuccessful. Mr Pincott did, however, express an interest in Mr Collins' ideas in early 1998, and asked Mr Collins to prepare further drawings. A patent attorney's advice was sought on whether the invention was patentable, and Mr Collins was described to the patent attorney as the inventor. On behalf of Spencer Industries the patent attorney
30 lodged petty patent application No 58291/99 on 4 November 1999 naming Spencer Industries as the applicant and Mr Collins as the actual inventor. Mr Collins had not, however, at that time assigned the invention to Spencer Industries. Nor did he do so subsequently. Despite this, the patent attorney lodged a notice of entitlement asserting that Spencer Industries as applicant had entitlement from Mr Collins "on the basis of an Assignment". Petty patent No 719185 (the patent) was sealed on 4 May 2000 in the name
35 of Spencer Industries.

40 On 15 August 2000 Mr Collins and the second respondent (another company interested in the invention) filed a notice under s 28 of the Act notifying the Commissioner of Patents that they asserted that the patent was invalid on the ground that Spencer Industries was not entitled to be granted the patent. On 30 March 2001 Spencer Industries applied to the Commissioner of Patents under s 69(1) of the Act for an extension of the term of the patent. On 18 January 2002 a delegate of the Commissioner of Patents decided that Mr Collins made the invention the subject of the patent outside the course of his normal duties as an employee of Spencer Industries; ownership of the invention the subject of the patent vested in Mr Collins; and, Spencer Industries' application for an extension of term
45 would be refused. It was from this decision that Spencer Industries appealed to the Federal Court.

50 It was accepted by the parties that if Spencer Industries was entitled to the grant of the patent it was because, although Mr Collins was the inventor, Spencer Industries would, on the grant of a patent for the invention, have been entitled to take an assignment of the patent within the meaning of s 15(1)(b) of the Act: at [10]. The principal issue for determination was whether Spencer Industries had a right, enforceable against Mr Collins, to take the benefit of the invention: at [69].

Held, dismissing the appeal and affirming the decision of the Delegate of the Commissioner of Patents:

(i) The powers given to the court by s 160 of the Act on an appeal from a decision of the Commissioner of Patents make it plain that the appeal is a hearing de novo: at [3].

El Dupont de Nemours & Co v Imperial Chemical Industries Plc (2002) 54 IPR 304, referred to.

(ii) It is inherent in the legal relationship of master and servant that any product of the work which the servant is paid to do belongs to the master. As the relationship between master and servant is constituted by contract the parties can alter or vary the normal incidents of the relationship, but only by express or implied agreement: at [69].

Patchett v Sterling Engineering Co Ltd (1955) 72 RPC 50, applied.

(iii) Spencer Industries would be entitled against Mr Collins to the benefit of the invention only if Mr Collins held the benefit of the invention on a constructive trust in favour of Spencer Industries: at [74]. Obiter dicta, not finally concluded: If Mr Collins made the invention within the course and scope of his employment as sales manager of Spencer Industries, the constructive trust would likely arise in favour of that company as the company entitled to the benefit of his work, not the company which technically employed him: at [74].

Electrolux Ltd v Hudson [1977] FSR 312; *Sterling Engineering Co Ltd v Patchett* [1955] AC 534; *Worthington Pumping Engine Co v Moore* (1902) 20 RPC 41; *Avtex Airservices Pty Ltd v Bartsch* (1992) 107 ALR 539; 23 IPR 469, cited.

(iv) The invention was not made by Mr Collins within the course and scope of his employment as sales manager of Spencer Industries. Mr Collins had a sales position, although he could be given reasonable directions by his employer to perform duties outside of the area of sales that were within the area of his technical skills and that were not incompatible with his principal responsibility for sales. His contribution to the invention fell within the residual area in which it was open to Spencer Industries to direct him to use his technical skills to undertake additional duties, but the invention was not the outcome of such a direction. Spencer Industries would not, on the grant of a patent for the invention, have been entitled to have the patent assigned to it within the meaning of s 15(1)(b) of the Act: at [77]–[86].

A B S Franklin instructed by *W J Henty & Co* for the applicant.

S Goddard instructed by *Acuiti Legal* for the respondent.

Branson J.

Introduction

[1] This proceeding calls for consideration of the sometimes difficult question of when an employer has a right, enforceable against an employee, to take the benefit of an invention made by the employee.

[2] The applicant (Spencer Industries) has lodged a notice of appeal from a decision of a Delegate of the Commissioner of Patents (the delegate) whereby it was decided that (*Spencer Industries Pty Ltd v Collins* (2002) 54 IPR 434):

- (a) the first respondent made the invention the subject of Petty Patent No 719,185 outside the course of his normal duties as an employee of the applicant;
- (b) ownership of the invention the subject of Petty Patent No 719,185 vests in the first respondent alone;
- (c) that the Application for Extension of Term of Petty Patent No 719,185, filed by the applicant on 30 March 2001, be refused; and

(d) costs be awarded against the applicant.

5 [3] As I observed in *El Dupont de Nemours & Co v Imperial Chemical Industries Plc* (2002) 54 IPR 304 at [12], the powers given to the court by s 160 of the Patents Act 1990 (Cth) on an appeal from a decision of the Commissioner of Patents make it plain that the appeal is a hearing de novo.

10 [4] Spencer Industries' principal contention on the appeal is that the delegate should have found that the first respondent (Mr Collins) made the invention the subject of Petty Patent No 719,185 (the patent) in the course and scope of his employment by Spencer Industries. On the basis of that contention Spencer Industries argues that the ownership of the invention the subject of the patent (the invention) vests in Spencer Industries. The respondents deny that Mr Collins made the invention the subject of the patent in the course and scope of his employment by Spencer Industries. They deny that the applicant has any entitlement to the invention.

15 [5] I have concluded, for the reasons set out below, that the appeal from the decision of the delegate should be dismissed and the decision of the delegate affirmed.

20 The invention

[6] The complete specification for the patent discloses that:

25 The present invention is in the field of tyre retreading and relates to improvements in both the process and apparatus used for the retreading of tyres. In particular, the invention relates to rasp blades and in an improved assembly of such blades on tyre rasp hubs for buffing away the tread on worn tyres.

30 [7] As the delegate observed, the specification is directed to an assembly for removing the tread from worn tyres. Tread is removed from a worn tyre by a buffing machine. A critical part of the buffing machine is the rasp hub on which blades are mounted. It appears that prior to the invention all blades used on any particular rasp hub were of identical shape, size and distribution of teeth. The invention provides for blades to be assembled on a rasp hub so as to present a particular form of staggered teeth array across each stack of the rasp hub.

Patents Act 1990 (Cth)

35 [8] The petty patent system was abolished from 24 May 2001 when the Patents Amendment (Innovation Patents) Act 2000 (Cth) (the Innovation Act) came into operation. However, the transitional provisions contained in Sch 2 of the Innovation Act have the effect that the law to be applied on this appeal is the Patents Act 1990 (Cth) as in force immediately before the commencement of the Innovation Act. The Patents Act 1990 (Cth) as in force at that time will hereafter be referred to as the Act.

40 [9] Section 15(1) of the Act is concerned with who may be granted a patent. The section provides:

- 45 (1) Subject to this Act, a patent for an invention may only be granted to a person who:
- (a) is the inventor; or
 - (b) would, on the grant of a patent for the invention, be entitled to have the patent assigned to the person; or
 - (c) derives title to the invention from the inventor or a person mentioned in paragraph (b); or
 - 50 (d) is the legal representative of a deceased person mentioned in paragraph (a), (b) or (c).

[10] The Act does not deal expressly with the circumstances in which an employer of an inventor is entitled to the grant of a patent. It is accepted by the parties in this case that if Spencer Industries was entitled to the grant of the patent it was because, although Mr Collins was the inventor, Spencer Industries would, on the grant of a patent for the invention, have been entitled to take an assignment of the patent within the meaning of s 15(1)(b) of the Act.

[11] Section 28(1) of the Act relevantly provides:

(1) A person may, within the prescribed period after the grant of a petty patent, notify the Commissioner, in accordance with the regulations, that the person asserts, for reasons stated in the notice, that the petty patent is invalid on one or more of the following grounds:

(a) that the patentee was not entitled to be granted the petty patent;

...

[12] Extension of the term of a petty patent is governed by s 69 of the Act which relevantly provides:

(1) A patentee of a petty patent may apply to the Commissioner, in accordance with the regulations, for an extension of the term of the petty patent.

...

(3) The Commissioner must not grant an extension without giving each person who has given the Commissioner a notice under section 28 in relation to the petty patent a reasonable opportunity to be heard.

...

(6) Where the Commissioner refuses to grant an extension, the Commissioner must:

(a) give the applicant written notice of the refusal and of the reasons for it; and

(b) publish a notice of the refusal in the *Official Journal*.

(7) An appeal lies to the Federal Court against a refusal by the Commissioner to grant an extension.

Factual findings

[13] There is little dispute between the parties as to relevant basic facts. The dispute between them relates principally to the inferences to be drawn from, or the ultimate facts to be derived from, the basic facts. Where there are relevant disputes as to the basic facts I deal with them below.

[14] Spencer Industries was incorporated on 1 November 1963 and began to trade shortly thereafter. It is a family company which was until about March 2002 controlled by the late Mr James Spencer Pincott (Mr Pincott). At all relevant times the business of Spencer Industries has been the manufacture of equipment used in the tyre retreading business, particularly rasp blades, hubs and spacers and pins for hubs. The company, Bijay Pty Ltd (Bijay), which is referred to below, shares the same registered office as Spencer Industries and has the same two current directors as Spencer Industries. For many years Bijay has paid the wages of the senior employees of Spencer Industries.

[15] Janice May Boorer (Mrs Boorer) is the managing director of Spencer Industries and a director of Bijay. She is the daughter of Mr Pincott and the mother of Noel Harold Boorer (Mr Boorer), the general manager of Spencer Industries. Mrs Boorer has been employed by Spencer Industries, or another of the companies in the Pincott Group, since 1972. She held the position of general manager for approximately 14 years, becoming managing director following the death of her father.

[16] Mr Boorer has had a long connection with Spencer Industries although

between 1988 and 2001 his principal employment was elsewhere. I accept that, during the life of Mr Pincott, Mr Boorer was being groomed by his grandfather to take over Spencer Industries. In July 2001 Mr Boorer returned to the employ of Spencer Industries becoming general manager of the company upon his grandfather's death in March 2002.

[17] Sometime in 1989 Mr Pincott decided that Spencer Industries should employ a sales manager to reduce his (that is Mr Pincott's) workload. Both Mrs Boorer and Mr Boorer gave affidavit evidence that Mr Pincott reached this decision in 1990. However, I am satisfied by contemporaneous documents that they are mistaken as to the year. After Mr Pincott's decision, Mrs Boorer contacted Catalyst Executive Pty Ltd (Catalyst). *The Sydney Morning Herald* of 9 December 1989 carried an advertisement placed by Catalyst. The advertisement was headed:

Sales Engineer International
\$50K + Car + Commission
• Overseas Travel
• Late 20s to late 40s'

The body of the advertisement included the following statements:

You will enjoy total responsibility for sales and contracts and the authority to negotiate new agencies both in Australia and overseas.

Ideally you will have qualifications in a mechanical engineering or related discipline; but more important will be your industry experience and motivation to succeed in a demanding "hands-on" industrial environment.

[18] Mr Collins was one of the individuals who responded to the above advertisement. He was interviewed by Mr Pincott and Mrs Boorer. By letter dated 22 February 1990, from Catalyst to Mr Collins, Catalyst confirmed an offer by Spencer Industries to Mr Collins. The letter's only reference to Mr Collins' terms of employment was:

Your job title will be *Sales Manager*, your starting salary will be \$40,000 pa and you will have full use of a fully maintained company Toyota Cressida, including private use and petrol card.

Paid holiday comprising 4 weeks per annum with normal office hours 8.30 am–5 pm. Your business expenses will be chargeable to a company credit card expense account. As discussed there will be considerable overseas travel involved.

[19] Mr Collins indicated his acceptance of the offer contained in the letter of 22 February 1990 by signing a copy of the letter and returning the signed copy to Catalyst.

[20] Mr Collins is a qualified first class machinist. At the time that he responded to the advertisement referred to above he had considerable experience as a sales representative. Between April 1989 and the commencement of his employment with Spencer Industries he was employed as a sales manager.

[21] Mrs Boorer gave evidence that Mr Collins was offered a salary of \$40,000, rather than the salary of \$50,000 referred to in the advertisement, because he did not have the engineering qualifications for which Spencer Industries was looking. Mr Collins' group certificates record that from 2 April–1 August 1990 his employer was Spencer Industries but that thereafter his employer was Bijay. I infer from the group certificates that after 1 August 1990 Mr Collins' salary was paid by Bijay.

[22] Mr Collins gave affidavit evidence on which he was not cross-examined that, at about the time that he commenced employment with Spencer Industries, Mr Pincott said to him:

I want you to double sales in 12 months. You will be judged by your sales results. You will be on probation. You will be employed and paid on a weekly basis.

[23] Mr Collins also gave affidavit evidence on which he was not cross-examined as follows:

In my position as sales manager, I was responsible for selling the products manufactured by the employer. Although the job was described as "sales manager", I was the only person employed in a sales position and I was not responsible for any other employees. Even as sale manager I did not have complete autonomy. I was required to seek approval from Mr Pincott for any sales tips and any appointment of new distributors. I was not involved in decisions concerning the management of the employer's business . . . No one suggested to me at any time before or after I was offered or commenced employment that I was employed to improve the products of the employer or to invent new ones or that this formed any part of my employment duties. At no time did anyone at the employer discuss with me anything about ownership of inventions and in particular I was never told by any person at the employer that if I made any invention it would be owned by the employer . . . I was also not instructed at any time by anyone of the employer to make any improvement to any existing product or to invent any new product.

[24] Mr Collins agreed during his cross-examination that during the course of his employment by Spencer Industries he made suggestions, which were acted upon, that Spencer Industries expand its product range. Mr Collins further agreed that he made his suggestions as part of the performance of his duty to Spencer Industries to increase sales. Mr Collins acknowledged that during his employment with Spencer Industries he was the only person from Spencer Industries to have regular contact with customers and distributors so that he was the person in the company who knew what the market wanted.

[25] In 1990 an overseas customer of Spencer Industries raised with Mr Collins the issue of Spencer Industries designing its own tyre rasp hub. At that time blades and spacers sold by Spencer Industries were used on hubs manufactured by its competitors in the tyre retreading equipment industry. Mr Pincott subsequently either instructed or authorised Sidney George Smith (Mr Smith), a machinist and toolmaker employed by Spencer Industries as its factory manager, and Mr Collins to work together towards the design of a new hub. No importance, in my view, attaches to the understandable difference in recollection of the witnesses as to precisely what was said by Mr Pincott in 1990 on this topic. Mr Collins acknowledged in his evidence that he was interested in advancing the development of the hub as he believed that it would increase his sales. He further acknowledged that he contributed to the design of the new hub and, to a limited extent, utilised his skills as a machinist in doing so.

[26] A patent application in respect of the new hub, which was designed to be air-cooled, was filed in 1991 in the name of Spencer Industries. Mr Collins had earlier described the new hub to a patent attorney at Mr Pincott's request. Both Mr Collins and Mr Smith signed an undated deed of assignment of their interest in the invention of the new hub in favour of Spencer Industries. The document, which the evidence suggests was never dated or stamped, recites that Mr Collins and Mr Smith had devised an invention relating to tyre rasp hubs as part of their employment by Spencer Industries. The patent application in respect of the new hub was allowed to lapse.

[27] Mr Collins gave affidavit evidence, which was not challenged, that he signed the deed of assignment concerning the tyre rasp hub without reading it because Mr Pincott asked him to, saying that he needed the document to tidy up his paperwork. Mr Collins' evidence that Mr Pincott said to him at this time:

5 Remember Anthony, don't get sidetracked on non-sales issues.

was also not challenged.

10 [28] Subsequently Mr Collins and Mr Smith worked together on the design of a tyre rasp spacer. On 24 February 1994 the Registrar of Designs issued a certificate of registration of a design under the Designs Act 1906 (Cth) in respect of the tyre rasp spacer. The certificate gives the name of the owner as Spencer Industries, the name of the author as Mr Collins and the article in respect of which the design is registered as a tyre rasp spacer. Mr Collins gave affidavit
15 evidence that his involvement in the design of the tyre rasp spacer was significantly less than the involvement of Mr Smith. Mr Smith gave affidavit evidence that he and Mr Collins contributed equally to the design. Precise evaluation of contributions to a design process where more than one person has been involved in the process will rarely be easy. It is not necessary for the purposes of this appeal for me to do more than find, as I do, that Mr Collins and
20 Mr Smith both contributed significantly to the design of the tyre rasp spacer. I accept Mr Collins' unchallenged evidence that in 1994 he did not know what a registered design was and what rights a registered design gave an author.

25 [29] In 1996 Mr Collins thought about designing a more efficient and effective tooth for a rasp blade. He formed the idea of staggering the teeth of adjacent blades to produce a more uniform cutting action across the rasping surface of the hub. Between May and November 1996 he made paper cut outs, and subsequently transparencies, of the prototype invention in his own time. By November 1996 Mr Collins had prepared a note, which incorporated a simple
30 diagram, outlining the invention.

[30] In November 1996 Mr Collins sought to interest Mr Pincott in the invention but was effectively rebuffed.

35 [31] However, in early 1998 Mr Pincott expressed interest in Mr Collins' ideas concerning offset rasp teeth and thereafter asked Mr Collins to prepare enlarged drawings of the offset rasp teeth he had in mind. Mr Collins prepared enlarged drawings of the invention in his own time using equipment that belonged either to him or to his wife.

40 [32] At a meeting held on about 2 December 1998 at which Mr Pincott, Mr Collins and Mr Smith were present, Mr Collins gave Mr Pincott the enlarged drawings. Mr Pincott directed Mr Smith to check the dimensions of the drawings and directed Mr Collins in words to the effect:

Draw a full size 1:4 print of the general layout of the offset rasp blade in your spare time.

45 [33] Mr Collins prepared the full size drawings partly during working hours, when he was free of sales work, and partly outside of working hours. The size of the drawings necessitated the use by him of Mr Smith's drawing board. In early 1999 Mr Pincott advised Mr Collins:

50 I have ordered a dye so that we can do some trial samples of your off set tooth design.
[34] In late September 1999 Mr Collins was requested by Mr Pincott to attend a meeting with George Griziotis (Mr Griziotis), a patent attorney. The

foreshadowed meeting took place on 30 September 1999. Present at the meeting were Mr Pincott, Mr Collins, Mr Boorer and Mr Smith. I am satisfied that Mr Griziotis and Mr Collins have the most detailed recollection of the meeting of 30 September 1999 and of the later meetings at which the same individuals were present. I entertain doubt about the evidence of Mr Griziotis only to the extent that it touches on circumstances surrounding the filing by him of the notice of entitlement referred to in [50] below. While I make no positive finding that Mr Smith sought to mislead the court, I have formed the view that at least his affidavit evidence discloses an anxiety to assist Spencer Industries at the expense of Mr Collins.

[35] At the meeting held on 30 September 1999 Mr Pincott advised Mr Griziotis that his opinion was required on whether the new rasp blade assembly was patentable. When Mr Griziotis asked for the invention to be explained Mr Griziotis' evidence is that Mr Pincott responded:

Well Anthony invented it for us and he should tell you about it.

Mr Collins' evidence is that Mr Pincott's response was:

Well, Anthony invented it so I'll ask Anthony to tell you about it.

Mr Smith's affidavit evidence is that at some time during the meeting Mr Griziotis asked who the inventor was and Mr Pincott said to use Mr Collins' name. Mr Smith also gave evidence that either before, during or after the meeting, Mr Pincott said words to the effect:

Anthony has been a bit down lately, so we should put Anthony's name on it (the patent application). It will be good for his ego.

Mr Boorer's evidence concerning this aspect of the meeting of 30 September 1999 is that he specifically recalled Mr Griziotis asking who was the inventor and his grandfather replying "Anthony".

[36] Mr Smith's evidence did not provide support for Mr Griziotis' recollection of Mr Pincott's response to his request for the invention to be explained. Nor does Mr Boorer's evidence. I conclude that Mr Pincott did identify Mr Collins as the inventor of the new rasp blade assembly but that it is more likely than not that Mr Pincott did not say: "Anthony invented it *for us*".

[37] I reject Mr Smith's evidence that Mr Pincott responded to Mr Griziotis' inquiry concerning the identity of the inventor by telling him to "use Mr Collins' name". Nor am I satisfied that Mr Pincott said to Mr Smith at the meeting, or at any time, that:

Anthony has been a bit down lately, so we should put Anthony's name on it (the patent application). It will be good for his ego.

The evidence does not suggest any name other than Mr Collins' name that could have been given as the inventor of the invention. Mr Smith, who gave evidence that it was part of his duties at Spencer Industries to design new products, agreed that the invention was complete when Mr Collins first told him about it. There is no evidence of any other person contributing to the invention.

[38] During the meeting of 30 September 1999 Mr Collins explained the invention to Mr Griziotis and answered his questions concerning it. Later in the meeting Mr Griziotis expressed the view that the invention looked patentable and provided advice with respect to the making of the patent application.

[39] Mr Griziotis gave affidavit evidence as follows:

I then said to Mr Pincott:

5 "OK, so I'll draft a petty patent application to be filed in the name of Spencer Industries identifying Anthony as the inventor. Once I've done a draft I'll send it to you so you, Anthony and Sid can check the technical details and make sure I have included everything."

to which Mr Pincott replied:

"Good."

10 I then looked at Mr Collins and said:

"Well, we'll need to have an assignment from you to Spencer Industries executed at some stage as a matter of routine."

to which Mr Collins nodded.

Mr Pincott then said:

15 "Yes, it can be assigned for a single dollar."

to which I replied:

"That's the nominal sum for consideration."

20 [40] Mr Collins agreed with the above evidence of Mr Griziotis subject to two matters. Mr Collins denied that he nodded in response to Mr Griziotis' statement concerning an assignment. Even if Mr Collins did nod as suggested by Mr Griziotis, I am not satisfied that he did so with the intention of conveying his willingness to make such an assignment. It is at least equally likely, in my view, that he nodded (assuming that he did nod) simply to acknowledge that Mr Griziotis' remark was addressed to him.

25 [41] Mr Collins also denied that Mr Pincott said words to the effect of:

Yes it can be assigned for a single dollar.

Mr Collins gave evidence that Mr Pincott said:

30 Yes, \$1 could be considered.

Mr Boorer's evidence was that Mr Pincott said:

It can be a simple transfer for a dollar.

35 The difference between the three versions has, in my view, no present significance.

40 [42] On 27 October 1999 a further meeting was held at the Spencer Industries premises. The same people were present as had attended the meeting held on 30 September 1999. A draft petty patent specification, which had earlier been sent by Mr Griziotis to Spencer Industries by facsimile transmission, was discussed. Mr Collins played a significant role in the discussions.

45 [43] On 29 October 1999 Mr Griziotis wrote to Mr Pincott advising him that an Australian petty patent application had been prepared and filed. A copy of the petty patent specification was enclosed with the letter. The petty patent specification named Spencer Industries as the applicant and Mr Collins as the actual inventor. The invention title was given as "tyre rasp blade and assembly". Mr Collins did not learn at this time of the filing of the petty patent application. Nor, I find, did he ever see the application while employed at Spencer Industries.

50 [44] In late October 1999 Mr Pincott instructed Mr Collins in words to the effect "get out of the office and sell overseas for a few months". Mr Collins commenced an overseas sales trip on 1 November 1999. He did not return to

Australia until 24 December 1999 and did not return to work until after the Australia Day weekend in January 2000.

[45] By letter dated 15 November 1999 Mr Griziotis advised Mr Pincott of the filing particulars of the application which had been assigned the application No 58,291/99. The letter concluded:

In order to complete the formalities of the application, I am enclosing a deed of assignment which should be completed where indicated and returned to me at your earliest convenience.

[46] The incomplete deed of assignment which was enclosed with Mr Griziotis' letter was drawn between Mr Collins as the assignor and Spencer Industries as the assignee. It purported to record an agreement between the assignor and the assignee for the transfer to the assignee of all of the right, title and interest of the assignor in the tyre rasp blade and assembly of which the assignor was the actual inventor. Consideration was expressed in the sum of one dollar.

[47] On 1 December 1999 an examiner of patents from the Patent Office wrote to Mr Griziotis' firm providing the examiner's first notification on the petty patent application. Among the matters raised by the examiner was that there was no notice of entitlement on file. By letter dated 29 December 1999 Mr Griziotis advised Mr Pincott, among other things, that:

We shall attend to the preparation and lodgment of a Notice of Entitlement.

[48] On about 1 February 2000 Mr Pincott handed Mr Collins the incomplete deed of assignment. Mr Collins' affidavit evidence as to the conversation that then took place is as follows:

We had a conversation in words to the following effect:

PINCOTT: Anthony, here is a Deed of Assignment for you to sign. It is part of the drafting requirements for the petty patent application.

ME: Mr Pincott we need to talk about payment. You said you would look after me if I invented something useful for Spencer.

PINCOTT: I'm not going to talk to you about payment.

ME: In that case Mr Pincott, I will not sign the Assignment.

[49] Mr Pincott died shortly after this appeal was instituted. As a consequence he could not be called to give evidence. However, some paragraphs of a statutory declaration signed by him on 2 May 2001 for the purposes of a hearing before the delegate were received in evidence. By his statutory declaration Mr Pincott asserted that Mr Collins first raised any objection to executing the deed of assignment in April 2000. I presume that Mr Pincott intended to refer to the meeting held on 19 April 2000. It seems to me to be unlikely that Mr Pincott would have waited from mid November 1999 (when he received the incomplete deed of assignment from Mr Griziotis) until 19 April 2000 to ask Mr Collins to sign the deed of assignment. Indeed, the paragraphs of Mr Pincott's statutory declaration received in evidence carry the implication that Mr Collins had been presented with the deed of assignment before the meeting of 19 April 2000. I therefore accept Mr Collins' evidence that Mr Pincott first asked him on about 1 February 2000 to sign the deed of assignment. It is not in dispute that Mr Collins did not sign the deed of assignment. In my view, it is more likely than not that Mr Collins would have given Mr Pincott a reason for his failure to sign the deed of assignment. I therefore accept the totality of the evidence of Mr Collins concerning the conversation between him and Mr Pincott which Mr Collins says took place on or about 1 February 2000.

[50] On 3 February 2000 a further meeting was held at the Spencer Industries premises at which Mr Pincott, Mr Griziotis, Mr Collins and Mr Smith were present. The first notification of the Patent Office examiner was discussed. However, the topic of the proposed deed of assignment was not discussed. Mr Griziotis gave affidavit evidence that during the meeting he raised the topic of the filing of a notice of entitlement. However, under cross-examination he appeared to agree that neither the topic of entitlement nor the need for assignment was raised. Mr Collins gave evidence, which I accept, that he does not recall the topic of a notice of entitlement being raised. I think it likely that Mr Collins would recall any remark made by Mr Griziotis concerning the filing of a notice of entitlement. Mr Smith's recollection was that he did most of the talking at the meeting. His evidence provides no positive support for that of Mr Griziotis. I find that the topic of a notice of entitlement was not raised during the meeting of 3 February 2000.

[51] On 21 February 2000 Mr Griziotis signed a notice of entitlement on behalf of Spencer Industries acting in his capacity as the company's patent attorney. The notice of entitlement is in the following form:

We SPENCER INDUSTRIES PTY LTD being the applicant in respect of Petty Patent Application No 58,291/99 state the following:

The person nominated for the grant of the patent (SPENCER INDUSTRIES PTY LTD) has entitlement from the actual inventor ANTHONY COLLINS on the basis of Assignment.

[52] In cross-examination Mr Griziotis said that the notice of entitlement was "erroneous". He gave evidence that at the time that he signed the notice of entitlement he had a false understanding of the nature of the term "assignment". While this seems a little unlikely, both by reason of Mr Griziotis' professional training and because he had provided a form of deed of assignment to Mr Pincott, it is not necessary for me to make a finding as to the truthfulness of this aspect of Mr Griziotis' evidence.

[53] Mr Griziotis provided the notice of entitlement to the Commissioner of Patents under cover of a letter dated 22 February 2000. By the same letter he provided responses to other objections earlier raised by the examiner.

[54] On 18 February 2002 Mr Collins sent, by facsimile transmission, a memorandum to Mr Chuck McGee, an American distributor of Spencer Industries products. The memorandum included the following assertions:

You have been aware that we have been working on a new blade for some time. I thank you for your patience and now wish to share our new development with you. It is not a new tooth blade, it's all about the position of the teeth on the blade.

...
We have found that by Offsetting the teeth positions on the blade body or to the mounting holes, has changed the importance of the blades being stacked with the Part Number (NAME) Upwards or Downwards. In the interest of not confusing Offsetting with Spacer issues, we will refer to this new development as STAGGERED teeth blades.

...
Please find next pages titled *PINCOTT STAGGERED TEETH* and a performance chart titled *R4-20S TESTING* and note the following:

...
8. We have a Patent Application in progress and will keep you advised.
...

11. I am now starting to test R115-25 with Staggered Teeth and waiting for the Ultra 11 to be available for testing.

...

[55] Mr Collins gave affidavit evidence that he sent the memorandum of 18 February 2000 following a conversation with Mr Pincott. His evidence, which I accept, as to the conversation is that it was to the following effect:

PINCOTT: I am fed up with Chuck McGee always insisting on new products. Send Chuck a fax to pacify him. Tell him about the new product.

ME: Is it wise to unveil the project before we apply for a patent and work out my compensation.

PINCOTT: I trust Chuck. Send him the fax.

[56] Later in February 2000 Mr Collins prepared some pictorial representations of the invention which he intended to use to promote sales of the invention. The presentations clearly identify the offset rasp blades as products of Spencer Industries.

[57] At about the same time Mr Collins prepared a draft agreement for the assignment by him of Australian petty patent No 719,185 to Spencer Industries. It is unclear whether the draft was intended to result in an assignment for a term of 1 or 2 years. The fee for the assignment is given as one Australian dollar. The draft provides for Spencer Industries to indemnify Mr Collins against "all claims, liabilities, cost, and expenses including unlimited attorneys' fees". The draft seeks to restrain Spencer Industries from assigning its rights under the agreement without the consent of Mr Collins.

[58] The petty patent application No 58291/99 was accepted on 6 March 2000. By memorandum dated 15 March 2000 the Patent Office advised Mr Griziotis' firm of the acceptance. There is no evidence that Mr Collins was advised of the acceptance of the application.

[59] In late March 2000 Mr Collins telephoned Mr Griziotis. There is no dispute as to the content of the conversation between them. The relevant paragraph from Mr Griziotis' affidavit reads:

In late March 2000 I received another telephone call from Mr Collins. He said:

"I want to talk to you about the assignment document you sent us. Is it possible to add royalty payments to the Deed of Assignment."

I replied:

"Yes, Deeds of Assignment can include royalty payments or other considerations. If we were going to do that in this case we would need to totally redraft the Deed of Assignment and have a tailor made Assignment."

Our discussion ended with me saying:

"If you want to be paid a royalty you should speak to Jim about it."

[60] It is convenient to reproduce Mr Collins' affidavit evidence of what happened thereafter:

On 19 April 2000, I had a meeting with Mr Pincott and Ms Boorer during the course of which he gave me an assignment to sign. We had a conversation in words to the following effect:

PINCOTT: Anthony you must sign the patent assignment or resign.

ME: Can we discuss payment and increased employment security.

I then presented him with a draft agreement I had prepared and which is at p 112 [see [57] above].

PINCOTT: Just sign or resign. Your sales trip to USA and Europe is cancelled. You are to stay in Sydney until I return from USA and Europe.

On 26 April 2000, Mr Pincott telephoned me at home during the Easter vacation and said words to the following effect:

PINCOTT: Anthony your sales trip to the United States is reinstated.

On 29 April 2000, I met with Mr Pincott at the factory immediately prior to my departure to the United States. We had a conversation in words to the following effect:

5 PINCOTT: I want you to sign the assignment before you go.

ME: Do you want to discuss my agreement?

PINCOTT: No. I want you to sign or resign.

For part of the sales trip in the United States, I was at the ITRA Retreading Exhibition in Nashville on the stand of Spencer's US distributor. The stand was close to the stand of the Second Respondent (B & J). During the course of the exhibition, James Graninger, the CEO of B & J approached me and we had a conversation in words to the following effect:

10 GRANINGER: Your wife has told us you have invented a new rasp blade. We would be interested in buying your invention if you have the right to sell it. Have you assigned it to Spencer Industries?

15 ME: No.

GRANINGER: Would you consider assigning it to us if you have the right to do so.

ME: Sure. Providing I get paid for it.

On 3 June 2000, I returned to Sydney.

On 5 June 2000, I gave notice of resignation . . .

20 [61] Mrs Boorer's recollection of the meeting of 19 April 2000 is simply that Mr Pincott said:

Anthony here's this document, would you please sign it?

25 to which Mr Collins replied "No" and then left the room.

[62] The extract from Mr Pincott's statutory declaration which was received in evidence includes the following passage:

30 At our meeting, Mr Collins requested that a substitute assignment agreement he had prepared in draft be executed imposing additional terms and conditions in his favour to replace the deed of assignment already presented to him before he would execute any assignment.

I rejected the additional terms and conditions specifically proposed by Mr Collins and [said] to him that, as an employee, his intellectual property rights in the invention created in the course of his employment automatically pass to his employer. We left that meeting in disagreement over the issue of ownership of Petty Patent No 719,185.

35 [63] The above passage seems to me to be more likely to have been drafted by a legal representative than by Mr Pincott. It does not purport to record the actual language used by Mr Pincott and Mr Collins respectively at their meeting. I consider it to be unlikely that Mr Pincott spoke in the terms outlined in the above paragraph although it is not inherently unlikely that Mr Pincott would have asserted that Spencer Industries was entitled to the benefit of the invention. However, as neither Mr Collins nor Mrs Boorer has given evidence that Mr Pincott did make such an assertion at the meeting of 19 April 2000, I find that he did not.

45 [64] I accept Mr Collins' evidence that he raised the issues of payment and increased employment security at the meeting of 19 April 2000. The draft agreement which Mr Collins had prepared tends to confirm that at least the second of these topics was on Mr Collins' mind at this time. I find that Mrs Boorer's recollection of the conversation is less detailed than Mr Collins and that this is probably because the meeting was of less immediate concern to her than to Mr Collins. It is not necessary for me to make a finding as to whether it

50

was at this meeting, as Mr Collins believes, or shortly thereafter as Mrs Boorer believes, that Mr Pincott told Mr Collins that his trip to the United States and Europe was cancelled. Nothing presently turns on this question.

[65] By a notice dated 15 August 2000 Mr Collins and the second respondent (B & J Manufacturing) acting under s 28 of the Act, notified the Commissioner of Patents that they asserted that the patent was invalid on the ground that the patentee was not entitled to be granted the petty patent: see s 28 of the Act. The notice included the statement:

Anthony Collins, being the inventor of the invention disclosed in said petty patent, did not assign any rights in the invention to the alleged patentee Spencer Industries Pty Ltd. Anthony Collins has agreed to assign his rights in the said invention to B & J Manufacturing Co.

[66] Spencer Industries, by their patent attorneys, applied to the Commissioner of Patents under s 69(1) of the Act for an extension of the term of the patent by a written application dated 30 March 2001. The application was refused by a decision dated 18 January 2002. It is from the decision of 18 January 2002 that Spencer Industries has appealed to the court.

Reasons of the delegate

[67] The decision of the delegate (*Spencer Industries Pty Ltd v Collins* (2002) 54 IPR 434) includes the following statement of the relevant principles (at 442-3):

Employers' rights in the inventions of employees are not governed by statute but by common law and equitable principles which clearly show that in the absence of any express contractual obligation there is no rule that an invention made by an employee is inevitably the property of the employer. It is instead necessary to determine whether the employment relationship suggests that the invention concerned was made in the course of employment or, in other words, whether it is something it was the employee's job to invent. The law applying in these situations has been summarised in *Fine Industrial Commodities Ltd v Powling* (1954) 71 RPC 253 at 257 as follows:

"The law relating to the position of officers or employees who make an invention affecting the business of the company which they serve is well settled. The principles applicable are stated in *Worthington Pumping Engine Co v Moore* (1902) 20 RPC 41; *British Reinforced Concrete Co v Lind* (1917) 34 RPC 101 and *Triplex Safety Glass Co v Scorah* [1938] Ch 211; [1937] 4 All ER 693; (1937) 55 RPC 21. The mere existence of a contract of service does not in itself disqualify the officer or employee from taking out a patent for an invention made by him during his term of service, even though the invention may relate to subject matter germane to, and useful for, his employers in their business, and even though the employee may have made use of his employer's time and servants and materials in bringing his invention to completion, and may have allowed his employer to use the invention while he was in their employment. But all of the circumstances must be considered in each case. It is very material to see what is the nature of the inventor's position in regard to the business, and it may be a term of his employment, apart altogether from any express covenant, that any invention or discovery made in the course of the employment of the employee in doing that which he was engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, should be the property of the employers and not of the employee, and that, having made a discovery or invention in the course of such work, the employee becomes a trustee for the employer of that invention or discovery, so that as a trustee he is bound to give the benefit of any such discovery or invention to his employer."

The delegate carefully reviewed the extensive evidence which was placed before him. That evidence included the statutory declaration of Mr Pincott dated 2 May 2001 referred to in [49] and [62] above.

5 [68] The delegate concluded that the invention was not made by Mr Collins in carrying out his normal duties. The delegate found that there was no satisfactory evidence to support the contention that it was incumbent on Mr Collins to provide solutions to problems identified by the customers of Spencer Industries. The extension sought by Spencer Industries of the term of the patent was refused by the delegate.

10 **Consideration**

[69] The principal issue for determination in this proceeding is whether Spencer Industries has a right, enforceable against Mr Collins, to take the benefit of the invention. It is not suggested that Mr Collins has assigned his interest in
15 the invention to Spencer Industries. The parties are in agreement that the relevant approach is that articulated in *Patchett v Sterling Engineering Co Ltd* (1955) 72 RPC 50 (HC) by Lord Reid at 58 in the following passage:

20 . . . No doubt the respondent was the inventor and in the ordinary case the benefit of an invention belongs to the inventor. But at the time when he made these inventions he was employed by the Appellant as their Chief Designer and it is, in my judgment, inherent in the legal relationship of master and servant that any product of the work which the servant is paid to do belongs to the master. I can find neither principle nor authority for holding that this rule ceases to apply if a product of that work happens to be a patentable invention. Of course, as the relationship of master and servant is constituted by contract,
25 the parties can, if they choose, alter or vary the normal incidents of the relationship, but they can only do that by express agreement or by an agreement which can be implied from the facts of the case.

Subject to the issue of the identity of Mr Collins' employer, which is discussed below, it is not here suggested that the normal incidents of Mr Collins' relationship as an employee with his employer was relevantly varied by express
30 agreement or by an agreement that can be implied from the facts of the case.

[70] Spencer Industries submits that the evidence reveals that Mr Collins made the invention within the course and scope of his employment by Spencer Industries with the consequence that the benefit of the invention vested in
35 Spencer Industries.

[71] The respondents submit first, that on 1 August 1991 Mr Collins' employment with Spencer Industries ceased and that his employer thereafter until his resignation was Bijay. On that basis the respondents contend that the invention could not have been made by Mr Collins in the course of his
40 employment by Spencer Industries. Second, the respondents submit that the invention was not made by Mr Collins within the course and scope of his employment.

[72] It is convenient to deal first with the submission that Mr Collins' employer at the time that he made the invention was Bijay and not Spencer Industries.

45 [73] It does not appear that it was claimed before the delegate that Mr Collins was not, at the relevant time, an employee of Spencer Industries. It seems clear that Mr Collins at all relevant times regarded himself as an employee of Spencer Industries. By way of example, his notice of resignation, which is dated 5 June 2000, advised Mr Pincott that:

50 . . . I wish to relinquish my position as Sales Manager and terminate my employment with Spencer Industries.

[74] The parties' submissions assumed that the question of the identity of Mr Collins' employer (that is whether he was employed by Spencer Industries or Bijay) was a critical question. I am inclined to doubt this assumption is correct. It is accepted by all parties there is no enforceable written or oral assignment of the benefit of the invention to Spencer Industries. For this reason I consider that Spencer Industries will be entitled against Mr Collins to the benefit of the invention only if Mr Collins held the benefit of the invention on a constructive trust in favour of Spencer Industries: *Electrolux Ltd v Hudson* [1977] FSR 312 per Whitford J at 325-6; *Sterling Engineering Co Ltd v Patchett* [1955] AC 534 per Viscount Simonds at 543-4 and Lord Reid at 547; *Worthington Pumping Engine Co v Moore* (1902) 20 RPC 41 per Byrne J at 49. If Mr Collins had made the invention within the course and scope of his employment as sales manager of Spencer Industries, I incline to the view that it would be immaterial that Mr Collins was technically employed by Bijay; the constructive trust would arise in favour of the company entitled to the benefit of his work, not the company which technically employed him: see, for example, *Avtex Airservices Pty Ltd v Bartsch* (1992) 107 ALR 539 at 561-2; 23 IPR 469 at 489 per Hill J.

[75] However, I do not regard it as clear that the fact that Bijay commenced to pay Mr Collins' salary in August 1991 had the legal consequence that Mr Collins ceased at that time to be an employee of Spencer Industries and became an employee of Bijay. In circumstance that the authority to direct, and if occasion arose to dismiss, Mr Collins remained, as I find that it did, in the managing director of Spencer Industries acting in that capacity, it is arguable, in my view, that Mr Collins remained employed by Spencer Industries and that Bijay paid Mr Collins' salary for and on behalf of Spencer Industries.

[76] However, as I have concluded that Mr Collins did not make the invention within the course and scope of his employment as sales manager of Spencer Industries, I need not give further consideration to the issue of the true identity of Mr Collins' employer after 1 August 1990 or to any related issue.

[77] I turn to consider whether the invention was made by Mr Collins within the course and scope of his employment as sales manager of Spencer Industries. The case of Spencer Industries is that the invention was made by Mr Collins:

... in the course of the execution of his general duty to Spencer to make technical improvements to Spencer's retreading equipment, and in particular rasp blades.

[78] There is no written employment contract between Spencer Industries and Mr Collins which defines with precision the scope of Mr Collins' employment. I accept the submission of Spencer Industries that in this circumstance, in considering the scope of Mr Collins' employment, it is necessary to give consideration to the nature and seniority of the employee's position with Spencer Industries, the nature of his duties as sales manager and whether he received a specific directive relating to the invention.

[79] In my view the evidence makes it plain that the position that Mr Collins held within Spencer Industries was principally a sales position. However, as might be expected in a relatively small, family-owned, company he occasionally undertook tasks outside his area of principal responsibility. I find that it was in the nature of Mr Collins' employment that he could be given reasonable directions to perform duties outside of the area of sales that were within the area of his technical skills and that were not incompatible with his principal responsibility for sales.

[80] More particularly, I find that it fell within the scope and course of

Mr Collins' employment as sales manager for him to recommend expansion of the product range of Spencer Industries where his contact with purchasers and potential purchasers suggested that expansion would be in the interest of Spencer Industries. I further find that it fell within the scope and course of Mr Collins' employment as sales manager for him to use his technical skills to demonstrate the function and utility of the products that it was his responsibility to sell.

[81] I find that Mr Collins in fact contributed to the invention of the air-cooled hub and the design of the tyre rasp spacer. These activities, I find, fell outside his ordinary duties as sales manager but within the residual area in which it was open to Spencer Industries to direct him, whether expressly or implicitly, to use his technical skills to undertake additional duties.

[82] However, I reject the submission of the appellant that because Mr Collins had a duty as sales manager of Spencer Industries to advance the sales of Spencer Industries any invention made by him which was capable of advancing Spencer Industries' sales was an invention made by him within the course and scope of his employment. This submission is, in my view, unacceptably broad in ambit.

[83] It was no part of Mr Collins' ongoing duties to invent products for Spencer Industries. Mr Pincott, the evidence discloses, on more than one occasion reminded Mr Collins that his ongoing duties were exclusively sales related. Nor was the invention the outcome of a direction given to Mr Collins within what I have described as the residual area in which he could be directed to perform tasks other than sales tasks. Mr Collins was not directed by Mr Pincott, or anyone, to invent a new rasp blade or to undertake any inventive activities which resulted in the invention. Mr Collins advised Mr Pincott of the invention, which he had conceived and developed in his own time, only when the inventive steps concerning it had been completed. The invention was not, in my view, the product of the work which Mr Collins was paid to do: *Sterling Industries Co Ltd v Patchett* per Lord Reid at 547.

[84] In arguing to the contrary of the above, the respondent placed weight on Mr Collins' seniority within Spencer Industries. As is mentioned above, Spencer Industries is a family-owned company. The evidence satisfies me that at all relevant times actual authority within the company vested almost exclusively in Mr Pincott and members of his family (the family). Mr Collins did not in any way control the business of Spencer Industries. Nor was his relationship with Spencer Industries of the close and confidential character considered by Byrne J in *Worthington Pumping Engine Co v Moore* at 46. The fact that Mr Collins' salary exceeded that of the managing director and the general manager, both members of the family, does not indicate to the contrary. It was for the family, and particularly I assume Mr Pincott, to determine how, when and in what form family members should reap the benefit of the company's success.

[85] The respondent also placed weight on conduct of Mr Collins by which he appears to have acknowledged that Spencer Industries was entitled to the benefit of the invention. The fact that Mr Collins envisaged, as I find that he did, that the invention would be exploited by Spencer Industries does not establish that he undertook the invention within the course and scope of his employment by Spencer Industries. I am satisfied that Mr Collins had little understanding of intellectual property law while he was employed by Spencer Industries. I am also satisfied Mr Collins hoped that he and Spencer Industries would work together to exploit the invention; that it would be added to the Spender Industries range of products which he was responsible for selling. However, I am also satisfied that

Mr Collins expected that Spencer Industries would appropriately reward him if the invention proved a commercial success. It was when Mr Pincott made it quite clear to Mr Collins that Spender Industries proposed to assume complete control of the benefit of the invention without negotiating any financial reward for Mr Collins that Mr Collins unequivocally refused to sign the deed of assignment offered to him by Mr Pincott.

[86] In my view, the decision of the delegate that the invention was made by Mr Collins outside the course of his duties as an employee of Spencer Industries should be upheld. Mr Collins has not assigned the benefit of the invention to Spencer Industries. Spencer Industries would not, on the grant of a patent for the invention, have been entitled to have the patent assigned to it within the meaning of s 15(1)(b) of the Act.

[87] The appeal will be dismissed with costs and the decision of the delegate affirmed.

DAVID L YATES
SOLICITOR

VICTORIA UNIVERSITY OF TECHNOLOGY v WILSON and Others

SUPREME COURT OF VICTORIA — COMMERCIAL AND EQUITY DIVISION

NETTLE J

13, 14, 17–21, 24–28 November, 1–4, 8–12, 15–18 December 2003, 18 February 2004 — Melbourne

[2004] VSC 33

Patents — Beneficial ownership of invention and associated software — Work done in scope of employment — Fiduciary obligations to employer — Accessorial liability — Appropriate form of relief to be granted — University academics designed an electronic international trade exchange — Patent for system so designed taken out — Whether university had policy which applied so that invention and associated software were its property — Whether academic had breached terms of their contracts with the university — Whether academics had breached fiduciary obligations owed to the university — Whether relief to be granted in form of constructive trust or equitable compensation.

The first defendant (Professor Wilson) was a professor in the Victoria Graduate School of Business in the plaintiff's (the university's) Faculty of Business and Law and also head of the university's School of Applied Economics. The second defendant (Dr Feaver) was a senior lecturer in the School of Applied Economics and head of its Centre for International Business Research and Education (CIBRE). The fourth defendant (IP3 Systems) was incorporated in December 1999 by Professor Wilson, Dr Feaver and Mr Astill (one of Professor Wilson's former students who had a degree of expertise in the use of computers and software in international trade and cross-border transactions). The fourth defendant (Jahupa Pty Ltd), the fifth defendant (Coap Pty Ltd) and the sixth defendant (Caason Pty Ltd) were corporate entities wholly owned and controlled by Professor Wilson, Dr Feaver and Mr Astill respectively and each held 23.81% of the issued share capital of IP3 Systems.

In July 1999, Professor Wilson was contacted by a former student, Mr Buccheri, about the prospect of the university developing a range of online international business and trade subjects for World Trade On-Line Holdings Ltd (WTO). Professor Wilson responded positively to these overtures and wrote to WTO expressing an intention to be involved in its system design, development and implementation as well as its teaching and educative aspects. WTO confirmed its understanding that the university and CIBRE would be involved in the design and implementation of its system in addition to the provision of the online education component. Although neither Professor Wilson nor Dr Feaver had any relevant experience in software architecture or mapping processes, they commenced the design of the WTO system together with the assistance of Mr Astill. After substantial progress on the system's design, Professor Wilson, Dr Weaver and Mr Astill signed a memorandum of understanding which vested the intellectual property in the concept in IP3 Systems and recognised their shareholdings in it of 40%, 40% and 20% respectively (the agreement).

However, at about this time, WTO began to reduce its interest in the project. In fact, although WTO paid Professor Wilson and Dr Weaver for some of their work, it had ceased to be involved in the project by December 1999. Nevertheless, Professor Wilson, Dr Weaver and Mr Astill continued to develop a disintermediated model of the system with the intention of interesting other industry partners. In that context, IP3 Systems was identified as the promoter of the system and it had success in interesting industry

participants both within Australia and overseas. Subsequently, in March 2000, Professor Wilson, Dr Feaver and Mr Astill lodged in the name of IP3 Systems an Australian provisional patent application in respect of the invention entitled "E-Commerce Facilitation" (the invention). A year later a complete patent specification was filed in respect of the invention and each of Professor Wilson, Dr Feaver and Mr Astill assigned their rights in it to IP3 Systems.

By that time, Price Waterhouse Coopers Consulting (PwC Consulting) had commenced involvement in the provision of technical support and advice for the project. In return for its contribution, PwC Consulting received a percentage of share capital in IP3 Systems. During that period, Dr Feaver continued in his role of designing and developing the system and Professor Wilson was involved as IP3 Systems' chairman of directors. Both consequently took time off from their duties with the university to fulfill these responsibilities, although Professor Wilson also used overseas study leave (on full pay) to work for IP3 Systems. The extent of Dr Feaver's involvement was reflected by the fact that, at the beginning of 2001, IP3 Systems undertook to pay \$10,000 to the university (only \$5000 was, in fact, paid) to compensate it for the time Dr Feaver had used to work for IP3 Systems. In May 2000, Professor Wilson, Dr Feaver and Mr Astill took advice from solicitors in respect of claims that the university might have had to intellectual property constituted by the invention and work associated with it. The substance of that advice was that the university did not have a claim to any relevant intellectual property because Professor Wilson and Dr Feaver had not developed the system in the course of their employment with it. However, in the second half of 2002, another academic at the university (Dr Morris) visited the IP3 Systems website which contained information about Professor Wilson and Dr Feaver. After reading that information, Dr Morris sent an email via the university's intranet which posed the question of how Professor Wilson and Dr Feaver could have been involved with IP3 Systems consistently with their responsibilities to the university. That email was the genesis for a university investigation of the matter which in turn led to the commencement of proceedings.

The proceedings were commenced by writ in June 2003 and Anton Pillar orders were made on the same day. In the context of the substantive application, the university made essentially three contentions. First, it was submitted that at all relevant times the university had in place a policy (the policy) with respect to intellectual property, which constituted an express or implied term of Professor Wilson's and Dr Feaver's terms of employment by it. Pursuant to the policy, all inventions, resulting patents, associated copyright material and confidential information created in the course of employment, studies, scholarship or research by or at the university, or to the creation of which the university had contributed substantially through funding, salary payments, resources, facilities, apparatus or supervision, was to be owned by the university. The policy was said to have applied to the work constituted by, and associated with, the invention. Relief by way of compensation, or a declaration that the invention and associated work was held by the university was sought in respect of this contention.

Second, the university claimed that there were implied terms of Professor Wilson's and Dr Feaver's contracts of employment stipulating that they would not enrich themselves or obtain other benefit or advantage at the expense of the university or assist others to do so. Furthermore, those terms were argued to have prohibited them from taking advantage of their positions to obtain private benefit or advantage for themselves or for others. The university alleged that they breached those terms by diverting away from CIBRE and the university to themselves and IP3 Systems the opportunity to develop and produce the electronic trading exchange invention and associated computer software. IP3 Systems was said to be liable as a knowing participant in Professor Wilson's and Dr Feaver's breaches in these respects. A declaration that they held the invention and related software on trust for the university, or in the alternative compensation, was sought with respect to these allegations.

Third, the university contended that Professor Wilson and Dr Feaver owed to it fiduciary and other equitable duties of loyalty and good faith including, in particular, duties not to use projects undertaken or developed by the university for their own benefit.

Furthermore it was pleaded that they were not to take advantage for themselves of any opportunity which they learned of by virtue of their respective positions with the university. It was alleged that they breached those duties by diverting away from CIBRE and the university to themselves and IP3 Systems the opportunity to develop and produce the invention and associated computer software. Once more, a declaration that they held the invention and related software on trust for the university, or in the alternative compensation, was sought with respect to these allegations.

For their part, the defendants denied that there was an intellectual property policy of the kind alleged and even if there was it had not been part of the terms of employment of Professor Wilson or Dr Feaver or otherwise binding upon them. They also asserted that the invention and associated software were not created in the course of Professor Wilson's and Dr Feaver's employment, studies, scholarship or research. That is, the invention and associated software were said to have been created in Professor Wilson's and Dr Feaver's own time, in an area of inquiry beyond the ambit of the skill and expertise attaching to the positions which they held. It was furthermore argued that the university had not contributed substantially to the invention or associated software by salary payments, resources, facilities, apparatus, supervision or otherwise. Professor Wilson and Dr Feaver did concede that they owed the university duties of good faith and loyalty, but that those duties had not been breached. In the alternative, it was submitted that even if the WTO proposal were available to the university to pursue, there was a "paradigm shift" in the course of design development so that the invention and associated software as finally designed was something completely different.

Held, relief granted to the university:

The policy

(i) There was no evidence that the policy was ever approved by the university's council and it was never published in its human resources manual or any other staff manual or equivalent publication: at [82], [91].

(ii) Before the events which gave rise to the proceedings, neither Professor Wilson nor Dr Feaver knew of the policy; neither of them had ever given a moment's thought to the existence of the policy; and neither of them had had any dealings with the university in any way premised upon an understanding that the policy was in existence: at [95].

(iii) The presumption of regularity had no application to support the existence of the policy or its application in the circumstances of the case. There was a body of evidence to rebut the presumption even if it arose: at [99]–[102].

Work done in scope of employment

(iv) The mere existence of an employer/employee relationship did not give the employer ownership of inventions made by the employee during the term of the relationship. Unless the contract of employment expressly provided, or an invention was the product of work which the employee was paid to perform, it was unlikely that any invention made by the employee would be held to belong to the employer: at [104].

(v) It had never been part of the activities of the university's School of Applied Economics to invent internet based e-commerce systems. The type of research that it had undertaken prior to 1999 was confined to academic research of the kind that was directed to the preparation and presentation of academic papers: at [110].

(vi) Professor Wilson and Dr Feaver did start out on the project on the basis that they should do the work on behalf of the university and they proceeded with it on behalf of the university until resolving with Mr Astill to take the intellectual property for themselves. There consequently was a basis to conclude that Professor Wilson and Dr Feaver were retained by the university to perform the work which they undertook on the invention: at [119].

(vii) The WTO did not insist that Professor Wilson and Dr Feaver act in a private capacity. Moreover, neither of them chose to act in a personal capacity in order to avoid exposing the university to liability: at [124]–[131].

(viii) Professor Wilson did determine that he and Dr Feaver would carry out the system design as a university project and that at least until they agreed with Mr Astill that the

intellectual property would vest in the three of them, the work which Professor Wilson and Dr Feaver did upon the system design, and the assistance given by Mr Astill, was done and given for the benefit of the university: at [137].

5 (ix) The effect of the agreement was that Professor Wilson, Dr Feaver and Mr Astill ceased at that point to work on the project on behalf of the university and that the work which they carried out on the project after that point was done on their own account: at [139].

Fiduciary obligations

10 (x) Professional employees owed to their employers fiduciary obligations not to profit from their position at the expense of their employer and to avoid conflicts of interest and duty: at [149].

15 (xi) In the circumstances of the case, Professor Wilson and Dr Feaver did breach their fiduciary obligations to the university. That was because the opportunity to design the WTO on-line system was presented to them in their capacities of head of the School of Applied Economics and head of CIBRE. They consequently took that opportunity away from the university upon entering the agreement. It was irrelevant that they might have done that in honest ignorance of the university's interests, particularly because they did not disclose what they were doing: at [151]–[175].

Accessorial liability

20 (xii) Mr Astill had not been a knowing participant in Professor Wilson's or Dr Feaver's breaches of fiduciary duty. The evidence did not establish that Mr Astill had the requisite dishonest state of mind in this respect: at [180]–[189].

(xiii) Mr Astill had not knowingly received trust property. The evidence did not establish that he knew of facts that indicated that any property he received was transferred in breach of trust: at [190]–[194].

Subsequent developments

25 (xiv) Both logic and equity dictated that allowance be made for the efforts and outgoings devoted to the invention up until the filing of the complete patent specification in March 2001 and that any interest in the invention which was to be accorded to the university was to be limited to that extent: at [200].

Relief to be granted

30 (xv) Relief to be accorded to the university was to be focused upon the shares in IP3 Systems which were or had been held by Professor Wilson and Dr Feaver, and by Jahupa Pty Ltd and Coap Pty Ltd: at [220].

35 (xvi) Professor Wilson and Dr Feaver, and Jahupa Pty Ltd and Coap Pty Ltd, were to be called to account either by the imposition of a constructive trust over their shares in IP3 Systems, or by the payment to the university of an amount of money equal to the value of the shares, and by payment to it of the proceeds of sale of any shares which they had already sold: at [222].

Proceedings

40 These were proceedings brought by the plaintiff before a single judge of the Supreme Court of Victoria. The facts appear in the judgment of Nettle J.

R Kendall QC with B Hess and A Panna instructed by Stephens for the plaintiff.

P Collinson with H Rofo instructed by Deacons for the defendants.

45 [1] Nettle J. This proceeding arises out of the involvement of two of the academic staff of Victoria University of Technology (the university) in the development of a patentable invention and two related computer programs. The principal question for decision is whether the academics or interests associated with them hold the invention or computer programs on trust for the university or
50 are otherwise accountable to the university in respect of the invention or programs.

The facts

[2] At relevant times the first defendant, Professor Kenneth Gregory Wilson, was professor in the Victoria Graduate School of Business in the university's Faculty of Business and Law and head of the School of Applied Economics. He holds an Honours degree in Economics and also a Masters degree in Economics from LaTrobe University and a doctorate of philosophy from the University of Wisconsin-Milwaukee in the United States. He is the author and co-author of many publications, including articles, papers and books relating to labour market economics and productivity, tourism economics and international trade. As head of the School of Applied Economics he was responsible for all aspects of running the school of some 40 academic staff, and several hundred undergraduate and postgraduate students, including the organisation and administration of the school's undergraduate and postgraduate teaching programs, the supervision of research students and the school's budget of around \$3m pa. By all accounts he is a respected economist and a talented academic administrator.

[3] The second defendant, Donald Feaver is and was at relevant times a senior lecturer in the School of Applied Economics. He holds a Bachelor of Arts degree from the University of Alberta, a Bachelor of Law degree from Dalhousie University, a Master of Law degree from Duke University and a doctorate of philosophy from Victoria University. His specialty is the political economy of international trade regulation and international economic policy. At relevant times he was head of the Centre for International Business Research and Education (CIBRE) which was established in 1998 as a research and education unit within the School of Applied Economics.

[4] The sixth defendant, Craig Astill is one of Professor Wilson's former students. He graduated from the university in the early 1990s and until the events which give rise to this proceeding he worked in various roles at Bonlac Foods and thereby acquired a degree of expertise in the use of computers and software in international trade and cross-border transactions.

[5] The other defendants are corporate entities which are in one way or another associated with Professor Wilson, Dr Feaver and Mr Astill. IP3 Systems Ltd (formerly IP3 Systems Pty Ltd) (hereafter I shall refer to each as IP3 Systems) was incorporated in December 1999 as a corporate vehicle for the development and exploitation of the invention. The fourth defendant, Jahupa Pty Ltd, is wholly owned and controlled by Professor Wilson and holds 4,391,786 or 23.81% of the shares in the issued capital of IP3 Systems. The fifth defendant, Coap Pty Ltd, is wholly owned and controlled by Dr Feaver and also holds 4,391,786 shares in the issued capital of IP3 Systems. The seventh defendant, Caason Pty Ltd, is wholly owned and controlled by Mr Astill and also holds 4,391,786 shares in the issued capital of IP3 Systems.

[6] Teaching and research in international trade goes back some way at the university. In 1990 the Footscray Institute of Technology¹ became the first Australian higher degree institution to establish a Bachelor of Business in International Trade degree course. Since then the number of subjects offered has expanded considerably; as have the numbers of students studying for both undergraduate and post graduate qualifications in the area. That success led in 1998 to the establishment of CIBRE, essentially as an organisation for the coordination of research in the area. The plan was that CIBRE would have the

1. Which is one of the university's predecessor institutions.

role of identifying relevant and practical research opportunities through industry and government linkages and generating research funding to be applied towards projects and initiatives consistent with departmental objectives and the university's general research plan.

5 [7] At the time of CIBRE's establishment it was envisaged that CIBRE's main source of funding would be the development and sale of a range of online short courses in international trade. The objectives for subsequent years included the development of a comprehensive consultancy business incorporating a trade
10 advisory service, and business data analysis and forecasting, as well as country risk analysis and assessment. The research objectives of CIBRE emphasised an applied approach to developments in international business practice and regulation and the development of links between the university, government and the business community.

15 [8] The CIBRE website was to be an essential part of the CIBRE operation. It had to be "user-friendly" in order to make CIBRE's online short courses attractive to students and it had to be comprehensive to enable CIBRE to function as a central repository of information about international business and trade related issues. To that end, during the early part of 1999 Dr Feaver engaged
20 Amarjot Singh Joura (sometimes known as "Sunny" Joura) on behalf of the university on a casual contract basis to construct the CIBRE website and to assist in setting up the online courses. Mr Singh was a masters student and later tutor in the School of Applied Economics, and a skilled computer programmer with a knowledge of international trade issues. He worked with Dr Feaver in order to
25 complete the construction of the website in the space of approximately 6 months and to develop two online demonstration courses in international trade and developing export strategies.

[9] During its first year of operations in 1999 CIBRE was also involved in a number of consulting related activities within the university and with partners in
30 government and private industry. Those included assisting the Faculty of Business to develop and implement an internet-based learning environment, developing new methods by which to deliver education and educational and administrative services to the faculty's off-shore students, developing and producing for the Australian Customs Service economic models for the
35 assessment of anti-dumping and countervailing legislation, and two consulting projects for private industry: one for a major Australian manufacturer and the other for the development of an online education and training course in international business and trade for World Trade On-line. The World Trade On-line project was the starting point of this case.

40 [10] In or about July 1999 Professor Wilson was contacted by one Joseph Buccheri about the possibility of the university developing a range of online international business and trade subjects for World Trade On-line Holdings Ltd (WTO). Buccheri had graduated from the university in 1994 with the degree of
45 Bachelor of Business in International Trade and since leaving the university he had sought advice from Professor Wilson from time to time about career and professional matters. During the second half of July 1999 Buccheri together with another WTO director, Damien Hutchins, attended on Professor Wilson at his office at the university and presented a PowerPoint presentation on their WTO proposal. Buccheri told Professor Wilson that WTO had been incorporated to
50 exploit a concept for an electronic international trade exchange developed by Buccheri and Hutchins and Peter Yoong (who was another director of WTO).

Buccheri said it was intended to enable international traders and brokers to undertake trading transactions electronically through a controlled electronic trading environment to be constructed and controlled by WTO. He and Hutchins described the WTO exchange as a product and commodity internet and extra-net based electronic trading exchange. Buccheri claimed that several large investors, including IBM Malaysia, were interested in investing in WTO and that WTO had already raised a substantial amount of investor funding.

[11] Buccheri said that the traders who participated in the WTO electronic international trade exchange were to be called "facilitraders" and that WTO intended to control the electronic trading environment by regulation of the facilitraders. Facilitraders were to be granted access to the exchange only after gaining accreditation on the basis of their existing qualifications or by the successful completion of an approved course in international trade practices. Thus a key component of the WTO concept involved the provision of an online international trade education and training course. Buccheri said that he had approached Professor Wilson in order to gauge the possibility of the university developing the online education and training course for the accreditation of the facilitraders. He thought that the WTO education and training course would be particularly attractive to potential facilitraders if completion of the course resulted in the award of a diploma from the university.

[12] Professor Wilson considered that the possibility of developing the online education component of the WTO represented an opportunity for CIBRE. At that stage CIBRE had not long been established within the Department of Applied Economics and had established only one short online internet based course. Professor Wilson saw the WTO proposal as an opportunity to expand the range of courses. Following the PowerPoint presentation, Professor Wilson wrote to Hutchins as follows:

Thankyou very much for the PowerPoint presentation of the World Trade Online proposal. The program is an exciting new development. I can see an important role for my colleagues and I [sic] as part of the Virtual University component.

I would like to confirm our expression of interest in your project. The expertise in the area of international trade is well known. We offer undergraduate and postgraduate courses in all aspects of international trade as well as producing research and consulting reports in these areas. Recently the Department of Applied Economics has set up a research and consulting arm. The Centre for International Business Research and Education (CIBRE). I invite you to visit the CIBRE web site which gives you some idea of our interest and capacity. We have made a strategic decision to move into online education in all areas of international trade using the web and our first short course is now up and running. Please visit <http://www.tradedata.net/cibre> to explore this short course and a range of areas CIBRE is developing.

You might also like to note that we are currently at advance stages of developing strategic alliances with three other Universities, one in Austria(focusing on Europe), one in Turkey (focusing on the Middle East), and one in Canada (focusing on North America) to develop web based education products in international trade. I would also like you to visit the TradeData website at http://www.tradedata.net//tradedata/frame_main.htm. TradeData provides a marketing information service based on details of internationally traded goods sourced from Customs declarations. TradeData is a trading enterprise and the Department of Applied Economics is an equity partner in TradeData.

I look forward to the next step in the development of World Trade Online and I can see CIBRE playing a strategically important role in its development.

[13] On 29 July 1999, Hutchins and Buccheri attended again at the university, on that occasion to make a further presentation about the WTO proposal and to meet Professor Wilson and other members of CIBRE whom it was thought might be involved in the development of the online education component of the WTO proposal. Those present included Dr Feaver, in his capacity as the Executive Director of CIBRE, and Sunny Joura, because of his involvement in setting up the CIBRE website and the development of the CIBRE online short courses. There was lengthy discussion about the potential role for CIBRE in the development of the WTO online education and training program. There was also some discussion about the construction of the electronic trading exchange, which was the other component of the WTO proposal.

[14] It emerged in discussion that the WTO proposal was at that point only a concept: a controlled electronic trading exchange for global trading with an associated online education and training diploma course for the accreditation of facilitraders. Until that time the founders of WTO had not given any more detailed consideration to the creation and implementation of the electronic market place than they had to the content of the online education and training course. They had been able to raise substantial investor interest on the basis of the concept alone. But the point was rapidly approaching when the trading exchange system had to be designed.

[15] In a luncheon meeting held shortly afterwards there was a more detailed discussion about the creation of the electronic market place and WTO's need to convince potential investors that the system could be built. Buccheri asked Professor Wilson to write a letter to WTO to confirm that the university was ready and willing to be involved in the development of the project. Professor Wilson was happy to comply. On 5 August 1999 he wrote to Hutchins, as follows:

It was a pleasure to meet with you and your team again on 29 July 1999 and further discuss aspects of "World Trade Online". Let me again reiterate our support for and interest in the initiative.

We believe that we are well placed to assist you in furthering the development of the "World Trade Online" initiative. In particular we believe, because of our long established expertise in International Trade research and education from undergraduate degree level to PhD, we can assist with the following:

- *WTO system design, development and implementation*
- Education and training of target user groups
- Development of web-based teaching and learning methods appropriate for WTO
- Strategy formation and implementation.

We look forward to your return to Australia to discuss these matters further with a view to establishing an agreed agenda of action. [Emphasis added]

[16] The reference to "WTO system design, development and implementation" was a reference to the design and implementation of the electronic trade exchange. The letter therefore suggests that Professor Wilson foresaw a role for the university and CIBRE in the design of the system as well as in the provision of the online education component.²

[17] WTO appear to have shared that view. In an email sent by Peter Yoong of WTO on 31 August 1999 to all concerned, he wrote:

Good news! We are proud to announce that Dr Donald Feaver has now joined the working project team and he represents Victoria University for the Education & Technology Sector in WTO Tech Ventures and the Virtual University component of our business. Dr Ken Wilson, Dr Feaver, *and their colleagues in Australia, will also assist us strongly in the building of the trade flows and templates with Elizabeth Bean, our Director of Trade & Technology.* [Emphasis added]

[18] Early in September 1999 Buccheri spoke again to Professor Wilson and Dr Feaver about the design of the WTO electronic trade exchange system. He told them that WTO was in need of a "high level" schematic design for the system architecture to show to prospective technology partners, and he asked Professor Wilson and Dr Feaver whether they would be prepared to produce such a design for WTO.

[19] To that point Professor Wilson had not had any experience in software architecture, or in the engineering or business process flow mapping processes which he knew would be involved in the design of the system. Nor had Dr Feaver. But Professor Wilson regarded Dr Feaver as someone who was well able to turn his mind to an intellectual challenge and prepared and able to cross into other disciplines in order to solve the challenge. And both men believed that unless they were able to provide Buccheri with a design for the system there would be no technology partners and there would be no call for the online education courses that CIBRE was intended to provide. Since that would have meant the loss of a potentially very significant source of revenue for CIBRE they agreed between themselves to attempt the task of producing the design and they told Buccheri that they would see what they could do.

[20] Despite Professor Wilson's limited experience with computers — in effect it had been confined to the use of standard Windows programs and the use of some specialist statistical packages for data analysis and hypothesis testing in research projects — he found that he was able rapidly to acquire the computing skills necessary for the design of the trading system, by reading during the evenings and at weekends reference books on business process mapping, business process engineering and software architecture. Similarly, although Dr Feaver had few skills in the areas of business process mapping, business process engineering or software architecture, and unlike Professor Wilson had no particular qualification in the analysis of microeconomic interrelationships, he did not experience any great difficulty in the design of the trading system. He found that the WTO technology solution did not involve any economic principles more sophisticated than the basic concepts of supply and demand and the market, and that most of the work involved no more than identifying variables, grouping them together in appropriate functions and classes, following a work-flow in order to generate process outcomes, and consolidating those into a diagrammatic set of sequences known as a "schema".

[21] The sixth defendant, Craig Astill, began his involvement with WTO at around the beginning of September 1999. He was one of Professor Wilson's former students but his connection with WTO came about through Buccheri, whom he also knew, rather than anything to do with Professor Wilson. Mr Astill invested some \$75,000 of his own money in WTO and he was given responsibility at WTO for the superintendence of the development of the online education program. He began work as a sort of associate assisting Professor Wilson and Dr Feaver and he was able to provide them with valuable assistance from an industry perspective.

5 [22] On or about 9 or 10 September 1999, Mr Astill told Professor Wilson and Dr Feaver that he had become concerned about his investment in WTO. He said that he believed that IBM Malaysia was the only likely source of funding for the WTO project and that IBM would not even consider investing in the project until a detailed schematic software specification had been produced. He thought that Buccheri and Hutchins did not have a real idea of what was required to produce a schematic system design and he lamented that the money which he had invested had been spent on directors fees and expenses. He said that he knew that Professor Wilson and Dr Feaver had already gone some way in the preparation of schematic architectural software specifications and he asked that he might work more closely with them to accelerate the process. Professor Wilson and Dr Feaver agreed.

15 [23] The three men met again on 15 September 1999. In the course of that meeting Mr Astill suggested that the three men should be the owners in equal shares of the intellectual property in the system design. Evidently, Professor Wilson and Dr Feaver responded that they should each have a 40% share and that Mr Astill should have only 20%. Mr Astill's notes of the meeting show the suggestion of an equal split struck out and replaced with a counter suggestion of 40% to each of Professor Wilson and Dr Feaver, and only 20% to Mr Astill.

25 [24] Throughout the remainder of September 1999 Dr Feaver blocked out the major functions and tasks of the electronic trading environment and began to add further specificity by identifying key variables, the points at which they were introduced, how data populates the various parameters and the sequence in which they fit together. Although at times he encountered a number of methodological problems in the organisation of the data and in showing it in a sequential form, he managed to resolve the problems by consulting a reference book in the computing section of the university library. The book presented a diagrammatic method for arranging the functions and parameters together around the trading hub, both pre and post transaction, and Dr Feaver employed that method of presentation. Once so approached, he found the use of the methodology an exciting challenge and he spent most weekends and many evenings in September 1999 wrapped up in the work of the exercise.

35 [25] As Dr Feaver proceeded he produced a number of drafts of the schema, and he discussed them with Professor Wilson and Mr Astill, and they in turn provided constructive criticism and comment which he found to be of assistance. Mr Astill was able to provide particular assistance with the process flow work, because of his familiarity with process flows relating to the execution of the financial and logistics processes involved in a trading exchange transaction, and also with the determination of the appropriate variables and sequences. Professor Wilson's role was as "devil's advocate", challenging the concepts and process variables and flows that Mr Astill and Dr Feaver had selected and entered in the process flow diagram, and making comments and suggestions for improvement.

45 [26] By the end of September 1999 the three men had produced a schema which they were satisfied was fit to be taken to a meeting with IBM in Malaysia for demonstration of the WTO system. By that stage Professor Wilson and Dr Feaver had also completed the course content for the WTO online teaching component, including a workable online diploma model for the WTO online education and training diploma course, a business plan setting out a revenue forecast and a critical path for the delivery of the online diploma course

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components commencing in January 2000 and the possibility of a Graduate diploma and Masters degree to be offered in future.

[27] On 23 September 1999 the three men signed an agreement in writing, called a memorandum of understanding, to which they attached the then current draft of the schema. By the memorandum of understanding they agreed:

... to incorporate a new corporate entity (tentatively named IP3 Pty Ltd) based upon the following shareholdings:

1.	Kenneth G Wilson:	40%
2.	Donald P Weaver:	40%
3.	Craig A Astill:	<u>20%</u>
		<u>100%</u>

and that:

... all Technology and Intellectual Property (IP) that has been developed and is developed/modified in relation to and for the purposes of licensing to World Trade Online (Holdings) Ltd, or any other venture as specified by scheduled addenda to the MOY, will be owned exclusively by the above parties in conformity with the above shareholdings, or the addenda as previously mentioned.

... certain Technologies and Intellectual Property (IP) developed for World Trade Online (Holdings) Ltd will be licensed exclusively to World Trade Online (holdings) Ltd, IT2 and its principle (sic) directors Mr Damien Hutchins, Mr Joseph Buccheri, Mr Peter Yoong and Mr Noel Brain in a triangular agreement/arrangement.

This Technology and Intellectual Property (IP) will only be licensed to other entities with the full agreement of all parties to this MOU if not utilised by World Trade Online (Holdings) Ltd.

[28] Mr Astill was, however, concerned that Buccheri and the other directors of WTO might try to claim authorship of the schema. He suggested therefore that the three men should each sign and date three copies of the schema, and mail copies in sealed envelopes to each of themselves, thereby to establish the date of creation of the schema. That is what they did.

[29] The meeting proceeded in Malaysia in the last week of September 1999. The schema as presented bore the names of Professor Wilson, Dr Feaver and Mr Astill, as owners of the copyright, as well as the logos of the university and CIBRE. Each of the parties who attended the conference signed the schema at the conference and Mr Astill brought the document back to Melbourne where it was also signed by Professor Wilson and Dr Feaver.

[30] That schema envisaged an internet based trading exchange mechanism to be owned and operated by WTO (as an internet application service provider) and it depicted software architecture designed to perform the specific practical tasks needed to conclude and execute international trade transactions using the website service to be offered by WTO. The data with which to populate the website was to be "static data", which is to say that it was not to be changed or refreshed automatically, and the architecture was "closed", in the sense that the website was to function as an independent stand-alone database and program.

[31] Much of that was to change, however, as Dr Feaver continued to work on the schema throughout October 1999. He began to think along the lines of direct business to business connectivity through the website and the automatic refreshment of the database to take account of the terms of each transaction. That was a more complex conception than the original proposal. It necessitated the

structuring of data relationships and in turn the use of economic theory as reference points upon which to base a rationale for making data choices and particular data linkages and relationships. Thenceforth the analysis would involve a high degree of specificity and detail, a precise identification of the business task and process variables and the determination of how they fit together to form a process-flow. The task would be closely associated with systems analysis and business process engineering.

[32] Dr Feaver was able by himself to work out the basic parameters for the structure of the data relationships, or the "transaction hub" as it was called, but he could not solve the mechanics of the data convergences. For that aspect of the development he had once more to turn to Professor Wilson, whose experience and expertise in applied micro economics was considerably greater than his own. Professor Wilson, however, considered that there was a readily achievable solution based on revealed preference theory. It was an area of economic theory with which he was familiar because of his expertise in applied economics, and he was able quickly to sketch out an explanation of his solution to the trading hub problem and convey it to Dr Feaver.

[33] By 31 October 1999 Dr Feaver and Mr Astill had completed a document which set out the trading hub in detail. It included the use of weights and preferences for several of the variables and the anticipated or possible methods by which the outcomes would be calculated in accordance with revealed preference theory. Professor Wilson printed three copies of the trading hub document and he and Dr Feaver and Mr Astill each signed the copies. It described their invention in part as follows:

The Trading Room is not a simple bulletin board type auction but rather an attempt to simulate a real world international trade negotiation. It contains elements of an auction and a stock market but crucially captures the behaviour of an international trade negotiation ...

Buyers and Sellers effectively negotiate and make decisions over three fields:

1. Price (which is open ended)
2. Payment Method (which is limited to four choices)
3. Time Terms (which is limited to six choices)

As in a real world negotiation each side must effectively rank each of these parameters both vertically and horizontally ...

The Sell will specify three sets of decisions:

1. An upper (preferred) price and lower (reserve) price will be entered. Only the upper price will appear in the product catalogue.
2. The Seller will then proportionally weight the Payment Methods horizontally, with weights summing to 1; $j+k+m+n=1$. The Seller need not specify non-zero weights to all four choices. The only requirement is that the weights sum to 1.
3. The Seller will then proportionally weight the Time Terms horizontally, with weights summing to 1; $a+b+c+d+e+f=1$. The Seller need not specify non-zero weights to all six choices. The only requirement is that the weights sum to 1 (note that Time Terms are only invoked in the case of LC and DA Payment Methods.)

Having made three sets of horizontal decisions the Seller now faces a fourth decision. The Seller now vertically weights each of the three decision criteria proportionally with the weights adding to 1; $X+Y+Z=1$ (note the DP or DP are chosen as Payment Methods then the Time Terms field automatically goes to zero weighting).

[With this information the computer will be able to calculate expected values for each no-zero cell for the upper and lower prices.]

By symmetry the Buyer's decision is logically the same and can be represented similarly ...

[With this information the computer will be able to calculate expected values for each non-zero cell for the upper and lower prices.] ...

A trade simulator will be built by VU in the course of completing the programming work required for the matrices ...

After convergence is reached in the Trading Room a signal will be given to indicate that the market has cleared and the details will be posted in the market outcome matrix (a possible issue that arises here is the desire by one side or the other to keep certain information confidential) ...

[34] It remained to work out the mathematical functions or algorithms by which outcomes could be calculated by a computer in accordance with the weights and preferences selected by the Buyer and Seller.

[35] During November 1999 Professor Wilson and Dr Feaver took the opportunity to explain the trading hub design to Sunny Joura. Mr Joura was at that time working for the university on a paid casual basis on the CIBRE website and the CIBRE online course presentation. But Mr Joura showed considerable interest in the trading hub and in the following weeks he developed a prototype solution capable of translating the trading hub model into a working computer based trade negotiation module. When he had completed it he handed it to Dr Feaver on a computer disk and Dr Feaver loaded it onto his computer at the university. That first version of it was written in Java using JDK (Java Development Kit) and had a DOS interface. In the weeks which followed Mr Joura also produced a second version of the module with a Windows interface and screen shots for the trading room design, using an application known as Visual Café.

[36] Meanwhile, the relationship with WTO had begun to sour. Early in November 1999 WTO were still expressing optimism and enthusiasm for the project, but as November went on Professor Wilson and Dr Feaver grew sceptical about the probability of WTO proceeding and concerned that without WTO there would be no use for the system. Dr Feaver started therefore to think along different lines and in or about the middle of November 1999 he came to the conclusion that he should amend the 31 October schema so as to remove the need for internet connection through a central trading exchange and replace it with capacity for direct business to business internet connectivity.

[37] According to Dr Feaver, the idea of that sort of business to business connectivity hit him as a flash of inspiration as he was driving his car one spring morning. He swore in cross examination that:

I think I was driving (at the time) — I had the idea initially in the morning, fairly early when I got up, and one of the reasons why I remember the morning so well — well, vaguely, it's not as clear as day but fairly close is that I think — well, I recall pulling over and scribbling on a piece of paper that I had to grab from the glove box and just so I'd remember how that initial set of structures was beginning to form and I remember on that morning speaking to Craig Astill very soon after I had that initial idea, so he should probably recall it, I don't know, and he started the process of adding additional ideas to that.³

[38] But in point of fact the idea of direct connection was hardly new. A number of other organisations were already working on developing "peer to peer"

connectivity systems in response to adverse market reaction to intermediary practices and charges. And as Mr Brown, who was an expert computer consultant called by the plaintiff, explained in evidence:

5 What a lot of people were doing with internet portals and similar projects was they were replacing the brokers with themselves and with the software and in terms of these words "intermediation" and "dis-intermediation", in fact, I would describe them as marketing hype because what you're doing is you're taking out — you take out the brokers and you replace them with yourself, effectively you then become the broker. And for this reason a lot of the models failed because people couldn't add value, the
10 brokers added or they got too greedy and they wanted to come and — they wanted to take the cut instead of the brokers, so when you say you take out the middle man, when you're putting another middle man in, you're not taking out the middle man, you're just swapping the middle man.

15 ...
Whoever runs software becomes the new middle man.⁴

[39] Nevertheless, the change in orientation away from intermediary to direct business to business connection did mean that the system architecture had to change yet again: this time from a single central database structure to a model of interacting distributed databases and, more specifically, from a single software
20 application designed to be accessed by all users through the central intermediary website to an unlimited number of software applications operated by an unlimited number of individual traders or "firms" interacting at will with each other.

[40] Dr Feaver and Mr Astill worked on the changes together, modifying the process flow aspects of the schema and reducing the modified flows and variables to diagrammatic form. The end result was a business to business scheme architecture of the kind that Dr Feaver had envisaged. He called it the
25 "disintermediated model".

[41] By December 1999 WTO had ceased to be involved in any practical sort of way (although much later, after correspondence between solicitors, WTO paid \$3000 to each of Professor Wilson and Dr Feaver for the work which the two men had done on the WTO schema). Professor Wilson and Dr Feaver and Mr Astill no longer had an industry partner for the development of the WTO model or the CIBRE plan for the online teaching course and they considered that the future lay
30 in attempting to interest industry participants in the development of the disintermediated model.

[42] In that state of affairs Mr Astill suggested that Dr Feaver write to GE Electric and New Tel Ltd — each of which was thought may be interested in development of the disintermediated model — and in accordance with that
40 suggestion, on 24 and 25 November 1999 Dr Feaver wrote letters to GE and New Tel substantially as follows:

I refer etc ...

45 The research group that I direct is in the advanced development stages of internet-based E-business trading platforms ...

In particular, we are developing:

- E-business Systems Architecture that is designed to integrate markets with administrative and support functions presently handled by more conventional methods of transacting business

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4. T 855.

- Market/Trading Hubs that are designed for to facilitate online intra-firm or inter-firm transactions which permit dynamic negotiation of multiple parameters in the decision-making process
- ERP compatibility whereby systems architecture and transaction hubs operate within ERP environments to facilitate intra-firm transactions, as well as provide a portal to external markets and businesses.

We are interested in developing our projects further and require an industry partnership to progress to the next stage of development.

If you are interested in discussing any issues raised above I would be pleased to hear from you.

[43] Dr Feaver faxed the letters from his home where he did not have access to CIBRE letter head, and hence he wrote the letters on plain paper. But Dr Feaver signed the letters as Executive Director of CIBRE, as he deposed in evidence, because he considered that the reference to CIBRE and the university would give the project greater credibility. His name appeared on the letters as follows:

Dr Donald Feaver
Executive Director
Centre for International Business Research and Education (CIBRE)
Department of Applied Economics
Victoria University
PO Box 14428
Melbourne MCMC 8001
Telephone: 9688 5005
Facsimile: 9688 4888

[44] A day or two later Dr Feaver received a telephone call from a representative of New Tel requesting that Dr Feaver travel to Sydney to explain the proposal further and a short time after that Mr Astill and Dr Feaver flew to Sydney at their own expense to make the presentation. Like Dr Feaver's letter to New Tel, the PowerPoint slides used for the presentation referred directly to CIBRE and the university. Under the heading "Who are we:", and the logos of CIBRE and Victoria University, the presentation included the following:

Professor Kenneth G Wilson is head of the Department of Applied Economics at Victoria University. Professor Wilson is one of Australia's leading applied economists who has published widely in a range of fields including international trade regulation, tourism economics, labour market economics and productivity. His research has been published in journals such as *The Economic Record*, *Annals of Tourism Research*, *Tourism Economics*, *Journal of Industrial Relations*, *Weltwirtschaftliches Archiv*, *Australian Bulletin of Labour And Economic Papers*. Professor Wilson has also authored many consulting research reports and has a track record of producing such reports on time and within budget.

Dr Donald Feaver is the Executive Director of the Centre for International Business Research and Education (CIBRE). Dr Feaver is one of Australia's leading researchers on competition, unfair trade and industry performance issues. CIBRE is a research and consultancy unit within the Department of Applied Economics at Victoria University.

Craig Astill is the director of Caason Investments, Minerals and Commodities & IP3. Mr Astill has an extensive background in international business and as a market analyst. Mr Astill is an Associate of CIBRE and has acted as a consultant on several projects.

[45] IP3 Systems was incorporated on 6 December 1999 and on 8 December 1999 Dr Feaver sent a further briefing document to New Tel, headed "IP3 Systems Pty Ltd — B2B Internet Commerce Business Systems". In effect it identified IP3 Systems as the promoter of the systems. But it too contained

CIBRE and university logos like those which had appeared in the PowerPoint presentation delivered in Sydney, and it repeated the descriptions of Professor Wilson, Dr Feaver and Mr Astill that are set out above. Dr Feaver signed the covering letter in the same fashion that he had signed the New Tel covering letter of 25 November 1999, as executive director of CIBRE.

[46] Mr Astill considered that American investors known as Brad and Marvin Billet may also be interested in the in the project. Accordingly, on 11 December 1999 Dr Feaver wrote on the letterhead of IP3 Systems to Marvin Billet in the United States a letter in which he attempted to persuade the Billets as to the worth of the project. Dr Feaver signed that letter too in the capacity of Executive Director of CIBRE.

[47] Evidently the Billets' response was favourable. In mid-December 1999 Mr Astill began to make arrangements to travel with Dr Feaver to New York to present their proposal to the Billets. In the week prior to Christmas 1999 Mr Astill and Dr Feaver prepared a new schematic diagram of the trading system architecture and a PowerPoint presentation specifically for the visit to the Billets. In that version of the schematic diagram, Dr Feaver employed some slightly more advanced techniques of entity relationship representation (adopted from a reference work on database design), such as triangles to represent interfaces and functions, diamonds to indicate relationships, cylinders to indicate databases, circles to indicate menus and choices, and hexagons to indicate integration and function. The conceptions represented, however, were essentially the same as those of the first disintermediated schema. The PowerPoint presentation was also similar to that prepared for the session in Sydney for New Tel, including substantial references to CIBRE and Victoria University; although it added IP3 Systems logos next to the CIBRE and Victoria University logos and included a prominent IP3 Systems logo on the first slide. The impression thereby conveyed was that CIBRE was to undertake the work of developing the systems on behalf of IP3 Systems.

[48] Dr Feaver and Mr Astill travelled to New York on 5 or 6 January 2000 and met Professor Wilson in New York on 7 January 2000. They paid the costs of travel and accommodation from their own resources. They had meetings with the Billets for the next 2 or 3 days and the Billets showed a distinct interest in the project. During one of those meetings Brad Billet suggested that the ability to raise money would be enhanced if the intellectual property involved in the schema had patent protection. He said that he would arrange for a US patent attorney to file a patent application for the invention. He also arranged the reservation or registration of the name "E-Tradelink" as the name of a company through which the invention might be exploited in the United States.

[49] Professor Wilson and Dr Feaver and Mr Astill told the Billets that they would return to Australia, prepare documentation for a patent specification and provide it to Brad Billet for submission to a US patent attorney to take the matter further. But Professor Wilson and Dr Feaver were not completely happy with the arrangement. The Billets were not prepared to pay anything for existing intellectual property in the invention and the Billets were not interested in funding the long term development of the model. Their plan was to acquire a Delaware shelf company at a price of around US\$2m, list the company on the NASDAQ on the basis of the existing schema technology and then ramp the price of the shares before effecting a quick sale for profit. Professor Wilson in particular disliked that sort of approach.

[50] In the event, Professor Wilson and Dr Feaver and Mr Astill decided to proceed alone. As a result of their meetings with the Billets they had reached the view that their scheme concepts might have considerable commercial value. They were concerned, however, that the university may stake some sort of claim to the invention. Consequently, before proceeding any further with the patent application, on or about 17 January 2000 Professor Wilson called on Professor Paul Clark at his home to seek his opinion.

[51] Professor Clark had been the Deputy Vice-Chancellor, higher education, of the university and as such the second most senior officer of the university. He had also been the Pro Vice-Chancellor and subsequently the Deputy Vice-Chancellor of Research for about 6 years. Professor Wilson sought Professor Clark's opinion because of Professor Clark's seniority in the university and because Professor Wilson considered that Professor Clark was likely to have a good knowledge of the university's position on intellectual property. But Professor Wilson had also known Professor Clark since about 1990 and had chaired many meetings at the university attended by him, and he regarded him as a friend.

[52] On arriving at Professor Clark's home Professor Wilson was surprised to learn that Professor Clark was to leave the university at the end of March 2000 to take up an appointment at another university. Professor Wilson nevertheless told Professor Clark that he and others had developed a software design relating to international trade facilitation and that he believed it was personal work which fell outside the scope of Professor Wilson's employment with the university. Professor Clark responded that he considered that the primary interest of the university in intellectual property in inventions lay in the area of the physical sciences for which the labs and other resources of the university had been used by researchers, but he suggested that Professor Wilson obtain legal advice to clarify the issue.

[53] Subsequently, Professor Wilson did obtain legal advice, but it was to be some time before that occurred. In the meantime, late in January 2000 Dr Feaver spoke to an acquaintance, Richard Fitzimmons, at PricewaterhouseCoopers and arranged a meeting with Martyn Halsall who was an ERP specialist with PwC Consulting. The meeting took place on 9 February 2000 and included a presentation of the invention by Professor Wilson, Dr Feaver and Mr Astill. Mr Halsall suggested that if the invention could be back-end integrated with the existing ERP's used by major companies to run in-house logistics processes, the invention would remove the possibility for error at the level of contact between the enterprises and within an enterprise and its external bargaining arm. He proposed a combined feasibility study with PwC into the practicability of back end integration.

[54] Throughout February 2000, Dr Feaver and Mr Astill continued to work on improving the model and during that time Dr Feaver sought advice from Ron Wenzler, who was the manager of the information systems for the Faculty of Business and Law at the university, as to how to proceed to develop the software for the project. Mr Wenzler offered a number of suggestions on different technological approaches which might be employed, including substitution of an object orientated data base approach for the more common relational database approach. He also told Dr Feaver of a new object orientated data base tool called JADE which would be useful for the project and of Ozgur Susoy, who was a

software designer who ran his own company, Virtual Nature Pty Ltd, and was skilled in the use of JADE. IP3 Systems later engaged Ozgur Susoy as its software designer.

5 [55] Late in February 2000 Professor Wilson sought advice from Freehills, solicitors, as to whether the university had any claim in respect of the invention. He received initial oral advice that it would be necessary for Freehills to sight Professor Wilson's and Dr Feaver's terms of engagement and the relevant university statutes and policies before an opinion could be expressed. Over the
10 next couple of weeks Professor Wilson gathered what he thought to be the relevant documents and he provided them to Freehills for consideration.

[56] At the end of February 2000 Professor Wilson also invited Sunny Joura to work for IP3 Systems for the month of March 2000 and Mr Joura signed a contract to do so. But as matters turned out Mr Joura did not begin to work for IP3 Systems for some time. Until June 2000 he continued under short term
15 contract to the university engaged on website and online short course development work for CIBRE.

[57] On 16 March Professor Wilson, Dr Feaver and Mr Astill lodged in the name of IP3 Systems an Australian provisional patent application in respect of the invention entitled "E-Commerce Facilitation" and on 24 March 2000 the
20 three of them on behalf of IP3 Systems executed a memorandum of understanding for collaboration with PwC, of which the terms were set out in a letter of 4 May 2000. The understanding was subsequently twice extended through to December 2000.

[58] In mid to late May 2000 Martyn Halsall proposed a project between PwC and IP3 Systems to produce a prototype of the integration module previously discussed, in order to demonstrate to the marketplace how certain basic but critical functions could be achieved. An arrangement was reached that IP3 Systems would issue shares to PwC in return for the provision by PwC of
25 technical assistance and resources for the development of the module.

[59] In the same month Freehills gave further advice to Professor Wilson and Dr Feaver and Mr Astill concerning claims that the university might have to intellectual property associated with the system and the content of that advice was communicated to PwC. According to the evidence given by Professor Wilson and Dr Feaver and Mr Astill, the substance of the advice was that the university
30 did not have a claim to the intellectual property because Professor Wilson and Dr Feaver had not developed the system in the course of their employment with the university. They deposed that the advice was oral and that there is no documentary record of the advice of which they are aware.

[60] Towards the middle of the year, Dr Feaver arranged for Sunny Joura to be sent to New Zealand for a 5 day intensive course in JADE. Mr Joura's airfares and accommodation were paid by IP3 Systems but Professor Wilson also authorised payment by the university to Mr Joura for the time that he spent on the
40 course.

[61] Mr Joura returned from New Zealand early in June 2000 and was instructed by Professor Wilson and Dr Feaver that the next phase of the e-commerce project was to be carried out at PwC's premises in Port Melbourne where he was to go to work on writing the software for the negotiation module using JADE. It was to be the first or alpha version of the computer program
45 software designed to give effect to the "E-Commerce Facilitation" invention. Richard Fitzsimmons of PwC was appointed the project manager and he and two
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consultants employed by PwC worked on the project with Ozgur Susoy and Mr Joura for approximately 6 weeks during June and July 2000. By mid to late July 2000 the team had completed the alpha prototype of the negotiation module and thus the first iteration of part of what ultimately was to become the "Electron" and "Ether" programs.

[62] In August 2000 Professor Wilson, Dr Feaver and Mr Astill travelled to the United States for about 10 days to meet representatives of PwC and to demonstrate the alpha prototype to PwC experts in Silicon Valley and New York and to representatives of JD Edwards in Denver. The response was enthusiastic and discussions continued with JD Edwards and PwC after returning to Australia.

[63] From that point Ahmed Youssef of PwC came to take an increasing role in co-ordinating the PwC resources and advising Professor Wilson and Dr Feaver and Mr Astill. Under his guidance, in September 2000 IP3 Systems opened new offices in South Melbourne and in the same month Sunny Joura went to work full time as a programmer for IP3 Systems. Twelve months later Mr Youssef was appointed chief executive officer of the company.

[64] On 16 March 2001 a complete patent specification was filed in respect of the invention, this time in the names of Professor Wilson, Dr Feaver and Mr Astill, and on the same day Professor Wilson, Dr Feaver and Mr Astill assigned their rights in the patent application to IP3 Systems.

[65] In May 2001 a team of IP3 Systems and PwC software programmers travelled to New Zealand to begin intensive programming of the second or beta version of the Electron and Ether programs, and they continued to work on the project in New Zealand for the next 4 months in conjunction with the JADE software organisation. But the magnitude of the task was such that the work could not be completed in New Zealand, and after returning to Australia in September 2001 the team continued with the work for many more months to come.

[66] After Ahmed Youssef was appointed chief executive officer of IP3 Systems in September 2001 the company began to promote itself to the world through a new and improved website. It recorded in detail the development of the Electron and Ether programs — from a beginning which it described as an academic research program — and referred to the contributions which had been made by Dr Feaver and Professor Wilson.

[67] Dr Feaver had performed the role of system architect or client, communicating to the programmers what it was that the system was intended to achieve. He did not write the computer program software — he was not capable of doing so — but as system architect he had devoted substantial amounts of time to the work of IP3 Systems throughout the whole of 2000 and 2001. The extent of his involvement was indeed such that in the first half of 2001 IP3 Systems undertook to pay \$10,000 to the university (of which, however, only \$5000 was paid) to compensate in part for some of the time which Dr Feaver devoted to IP3 Systems and in the second half of 2001 Dr Feaver was contracted to work for the university for only 50% of his time, with a corresponding reduction in the rate of his salary, so that the remainder of his time might be devoted to IP3 Systems.

[68] Professor Wilson's involvement had been less but he had put in considerable time during 2000 and 2001 as chairman of directors of IP3 Systems and he used periods of overseas study leave and long service leave to undertake a number of assignments on behalf of the company. In the first half of 2002 he devoted time to the company when he was absent from the university on full pay,

ostensibly on overseas study leave. He also used his position as head of school to procure that the university purchase two high powered computer servers, and he had them delivered to the PwC centre for use by the collaborative. His plan to begin with was that they would be lent to the collaborative for a period of only 3 months. But as time went on the need for their use continued and so he let them remain with the company being used for the next 2 years and until finally the university demanded their return late in 2002.

[69] In the second half of 2002 another academic at the university, Dr Morris, came upon the IP3 Systems website and after reading what it said about Professor Wilson and Dr Feaver he broadcast on the university's intranet an email in which he posed the question of how Professor Wilson and Dr Feaver could have found time to be involved consistently with their duties to the university

[70] Professor Morris' email led to the establishment of a university investigation into the matter, headed by Professor Hamerston, and that investigation eventually led to the commencement of this proceeding.

The history of the proceeding

[71] The proceeding was instituted by writ filed on 4 June 2003 and Anton Pillar orders were made on the same day. Subsequently the proceeding was set down by the judge in charge of the intellectual property list for trial on the question of liability alone, as a matter of urgency. At that time orders were made upon the application of both parties that they might rely at trial upon the affidavits which they had filed for the purposes of the Anton Pillar application, augmented as they may be advised. The result has been 18 A4 ring binders of affidavits and exhibits, a further four A4 ring binders of documents not referred to in the affidavits, another four A4 ring binders of documentary exhibits tendered in the course of trial, some 250 pages of written submissions and a trial of 25 sitting days of extended sitting hours. I take the opportunity to observe that I do not think that there would have been nearly as much paper, or that the trial would have taken nearly as long, if evidence in chief had been given viva voce. If any further testimony is to be given in this proceeding, I intend that it be given orally.

The parties' contentions

[72] The plaintiff's "Consolidated Third Amended Statement of Claim" (CTASC) is almost 80 pages in length. It alleges causes of action ranging from damages for breach of contract to equitable proprietary relief for breach of fiduciary duty and a host of combinations of the elements of each of those two. Reduced, however, to essentials it inheres in three contentions:

- First, that at relevant times the university had in place a policy on intellectual property, constituting an express or implied term of Professor Wilson's and Dr Feaver's terms of employment by the university, that all inventions, resulting patents, associated copyright material and confidential information created in the course of employment, studies, scholarship or research by or at the university or to the creation of which the university has contributed substantially through funding, salary payments, resources, facilities, apparatus or supervision, will be owned by the university. It is alleged that the electronic trade exchange invention and the associated software were created by Professor Wilson and Dr Feaver in the course of their employment, studies, scholarship or research, and further or alternatively that the university substantially contributed to the

invention and software by salary payments, resources, facilities, apparatus and supervision, and thus that the invention and software are in equity owned by the university or that Professor Wilson and Dr Feaver are in equity liable to account to the university or compensate the university for the loss of the invention and software: CTASC, paras 26(c), 34, 35 and prayers 10, 13 and 20.

- Second, that apart from the intellectual property policy, there were implied terms of Professor Wilson's and Dr Feaver's terms of employment by the university that they would not enrich themselves or obtain other benefit or advantage at the expense of the university or assist others to do so, and would not take advantage of the positions which they occupied to obtain private benefit or advantage for themselves or for others: CTASC, paras 26(n), (o), 34 and 35 and prayers 10, 13 and 20. It is alleged that they breached those terms by diverting away from CIBRE and the university to themselves and IP3 Systems the opportunity to develop and produce the electronic trading exchange invention and associated computer software. It is said to follow that they hold their interests in the invention and software on trust for the university or alternatively that they are liable to account to the university or to compensate the university for the loss of the opportunity. IP3 Systems is said to be liable as a knowing participant in Professor Wilson's and Dr Feaver's breaches of duty: CTASC paras 37, 40, 41 and 42 and prayers 10, 13 and 20.
- Third and, in the way in which the trial developed, principally, that as employees of the university in the positions which they held, Professor Wilson and Dr Feaver owed to the university fiduciary and other equitable duties of loyalty and good faith including, in particular, duties not to use projects undertaken or developed by the university for their own benefit or to take advantage for themselves of any opportunity of which they learned by virtue of their respective positions with the university: CTASC paras 27A and B. It is alleged that they breached those duties by diverting away from CIBRE and the university to themselves and IP3 Systems the opportunity to develop and produce the electronic trading exchange invention and associated computer software: CTASC paras 37(b), (bb), (c), 40, 41 and 42. It is said to follow that Professor Wilson and Dr Feaver hold their interests in the invention and software on trust for the university or alternatively are liable to account to the university or to compensate the university for the loss of the opportunity, and that IP3 Systems is equally liable as a knowing participant in Professor Wilson's and Dr Feaver's breaches of duty: CTASC, prayers 10, 13 and 20. Mr Astill is said to be liable for knowing involvement in the breach of fiduciary duties or for knowing receipt of trust property.

[73] The defendants' case is in essence just as compendious. The defendants contend that:

- There was no intellectual property policy of the kind alleged and even if there were it was not part of the terms of employment of Professor Wilson or Dr Feaver or otherwise binding upon them.
- The electronic trading exchange invention and the associated software were not created in the course of Professor Wilson's and Dr Feaver's employment, studies, scholarship or research, but rather in Professor

Wilson's and Dr Feaver's own time, in an area of inquiry beyond the ambit of the skill and expertise attaching to the positions which they held, and that the university did not contribute substantially to the invention or software by salary payments, resources, facilities, apparatus, supervision or otherwise.

- Although Professor Wilson and Dr Feaver did owe to the university duties of good faith and loyalty, there was nothing in what they did which breached the duties. To the contrary, WTO insisted that Professor Wilson and Dr Feaver undertake the development of the schema privately and not on behalf of the university.
- Alternatively, and even if the WTO proposal were available to the university to pursue, there was a "paradigm shift" in the course of design development so that the system as finally designed is something completely different, and so too is the software.

[74] It is convenient to take the plaintiff's contentions and the defendants' responses in turn.

The intellectual property policy

[75] When Dr Feaver was appointed as a senior lecturer of the university in August 1999 he signed a document⁵ by which he accepted that the terms and conditions of his employment would include the following:

1. Your salary will be \$59,294.00 per annum within the range of \$59,294.00 to \$68,369.00 in the Department of Applied Economics with effect 1 July 1999.
2. You will be expected to perform the duties at Level C in accordance with the attached position classification standards.
3. Conditions of service as described in awards, agreements *and university policy* will apply to you as relevant to a Level C Academic. [Emphasis added]

The question in his case is whether the intellectual property was at relevant times "university policy" within the meaning of those provisions.

[76] Nine years before, when Professor Wilson was first appointed to a tenured position as a senior lecturer with the Footscray Institute of Technology, he signed a form of acceptance which provided that:

Terms and conditions of employment are as approved by the Institute Council. Detailed terms and conditions of employment are published in the Institute Staff Manual. You are entitled to have sick leave and service credits transferred from previous employers in accordance with determinations by the Post-Secondary Education Remuneration Tribunal. Please advise the Staffing Office if you are seeking to have sick leave or service credits transferred from other employers. *Attached for your information is a Summary of Terms and Conditions of Employment for Permanent (Tenured) Academic Staff.* [Emphasis added]

[77] The "Summary of Terms and Conditions of Employment for Permanent (Tenured) Academic Staff" has not been put in evidence, and there is nothing to show that it made any reference to Institute policy, but when the university was established by the Victoria University of Technology Act 1990 (Vic) (the Act), the assets and liabilities of the Footscray Institute of Technology became assets and liabilities of the university and all contracts made or entered into by or on behalf of or in relation to the Footscray Institute of Technology which were in

force at the time of the inception of the university took effect as if made or entered into by or on behalf of or in relation to the university.⁶

[78] I think it follows that upon the inception of the university, Professor Wilson became bound to the university by terms and conditions of employment *mutatis mutandis* the same as those by which he had been bound to the Footscray Institute of Technology, and thereafter as might be approved by the university council and published in the university staff manual. Accordingly, the question in his case becomes whether the intellectual property policy was approved by the university council and included in the manual.

[79] Professor Paul Clark was at relevant times the Deputy Vice-Chancellor of the university. He gave evidence that he "introduced" the intellectual property policy in 1995. He deposed that he had the policy drafted by the university's solicitor in 1994 and that he circulated the policy as a draft to members of the Vice-Chancellor's advisory committee and to heads of departments before a meeting of the Vice-Chancellor's advisory committee held on 5 September 1994. The notes of that meeting⁷ record that:

Professor Paul Clark introduce a paper which he had asked the University Solicitor to prepare setting out a proposed University Policy on Intellectual Property.

The proposed policy is to be treated as a confidential discussion draft and only to be circulated within VCAC, heads of Department (by Professor Priestly) and a very limited number of other individuals in a position to make a specific contribution.

The Vice-Chancellor expressed his thanks for the work that had been undertaken in preparing the proposed policy and drew members attention to the importance of the definitions in the Interpretation section of the paper.

Professor Clark requested particular input on the treatment of computer programs, the ownership of student's written work and the insertion of an appeal mechanism.

Comments are to be provided to Professor Clark or, in his absence while overseas from 9 September to 4 October 1994, to the University Solicitor.

[80] Professor Clark affirmed that he did receive some comments and thereafter that he sent a copy of the policy to the Office of Research, which he said was responsible for publicising and advising on the policy, and also to the Vice-Chancellor's office so that it could be recorded on the Vice-Chancellor's Registry database. The policy was so recorded on 30 June 1995 and Professor Clark said that he believed that it then became applicable to all staff of Victoria University who were involved in the creation or administration of "Intellectual Property" at Victoria University.

[81] The defendants submitted that whatever Professor Clark may think to be the effect of the policy, there is no evidence that it was ever approved by the university council or published in the university staff manual, and hence that it is not the sort of policy which is referred to in Professor Wilson's terms of engagement or for that matter as a "university policy" in Dr Feaver's terms of employment. The defendants' argument is that:

- Section 7 of the Act provides that the council is the governing authority of the university and has the direction and superintendence of the university and there is no minute or other evidence of any meeting of the council at which the policy was adopted or approved.
- Section 35(t) of the Act specifically confers on the council power to make statutes with respect to intellectual property and while s 19 of the

6. Victoria University of Technology Act 1990 (Vic), s 54.

7. Exhibit P 80: PC3.

Act empowers the council to delegate some of its powers, authorities, duties and functions, it excludes delegation of the power to make statutes.

- 5
- Even if the council were empowered to delegate the power to make policy on intellectual property, there is no evidence of any such delegation.
 - 10 • Section 23(3) of the Act provides that the Vice-Chancellor is the chief executive officer of the university and has such powers and duties as are prescribed, but there is no evidence of any prescription empowering the Vice-Chancellor to ordain a university policy on intellectual property binding upon employees of the university.
 - 15 • Further, while the policy may have been placed on the Vice-Chancellor's database, whatever that may be, there is no evidence that it was ever published in the university staff manual or any equivalent publication. To the contrary, Professor Clark gave evidence that the university's human resources manual did not come into existence until in or about 1992, some considerable time before the preparation of the draft intellectual property policy, and there was no suggestion that the manual was ever amended to include the policy or any reference to it.
 - 20 • A further indication that the 1995 Intellectual Property Policy was never approved is that the human resources manual was amended to incorporate other policies on outside work and outside study which had been approved by the council.⁸
 - 25

[82] In my opinion that the defendants are correct. There is no evidence that the 1995 Intellectual Property Policy was ever approved by the university council and it is clear enough that it was never published in the university human resources manual or any other staff manual or equivalent publication.

30 [83] The university relied upon minutes of a meeting of the university council held on 3 July 1995 as evidence that the council had approved the policy. But they are not that. The minutes show that the council did no more at that meeting than endorse the Research Management Plan 1995.⁹ The Research Management Plan was not the 1995 Intellectual Property Policy. It was a document of some 35 39 pages which did not contain any reference to the 1995 Intellectual Property Policy, despite the fact that it dealt with a range of issues concerning the research ambitions of the university.¹⁰ Worse still for the university, s 19 of the document, headed "Regulatory Environment", proclaimed that it was "A *code* of conduct for research, published by the university which contains details of the relevant policies and procedures" (my emphasis). Given the absence of any reference to the 1995 Intellectual Property Policy, that seems to me to constitute a further indication that the policy was not in force. A section of the *code* headed "Intellectual Property" also suggests that there was not any formal intellectual property policy then in existence. The second paragraph refers to "university's policy" in a fashion which is redolent of informal policy, and that impression is reinforced by the provision in the fourth paragraph that:

50 8. T1289 and 1293.

9. Exhibit P 80: PC6 (p 5).

10. Exhibit D36.

The University's *approach* to its intellectual property is guided by the *following principles*:

- copyright in written material is held by the copyright owner and the University will claim copyright only where the material was produced at the University's request for a specific purpose
- inventions produced in the University are patented by the University for the joint benefit of the inventors and the University
- contracts entered into by the University and involving staff and students must wherever possible receive the prior agreement of those staff and students
- the publication rights of research students must not be compromised through agreements with research sponsors or providers of student scholarships. (My emphasis)

[84] Inconsistencies between a number of the dot points and the terms of the 1995 Intellectual Property Policy appear to me also to be significant. The first dot point is inconsistent with cl 1.4 of the 1995 Intellectual Property Policy or at least significantly different in phraseology and emphasis: cf "request for a specific purpose" with "specially commissioned by Victoria University". The second dot point claims an entitlement to patents "produced in the University", which rather implies that inventions produced outside the university are not claimed (irrespective of the scope of employment of the employee creating the invention). The implication is inconsistent with the definition in the 1995 Intellectual Property Policy of "intellectual property to which this Policy applies". The provision in the second dot point — that inventions are patented "for the joint benefit of the inventors and the University" — is also inconsistent with cll 5.1, 5.2, 5.3, 6.1 and 10.1 of the 1995 Intellectual Property Policy (which provide for 100% ownership of invention created by staff in the course of employment or using university resources).

[85] There is no direct evidence that the Vice-Chancellor ever approved the document called the 1995 Intellectual Property Policy. As far as Professor Clark knew¹¹ the Vice-Chancellor never signed any instrument or thing signifying approbation of the document. There is also the problem that even if the Vice-Chancellor had purported to approve the document, he may not have had power to do so at the time. By s 7(1) of the Act the council was appointed as the governing authority of the university with the direction and superintendence of the university, with power to delegate to a prescribed officer of the university all or any of its powers, authorities, duties or functions (other than the power to make Statutes and the power of delegation itself).¹² There is no evidence of any relevant delegation of power from the council to the Vice-Chancellor.

[86] Section 23(3) of the Act stated that the Vice-Chancellor is the chief executive officer of the university with such powers and duties as are prescribed. But so far as I can see there was no relevant prescription. The university relied upon para 1 of Statute 3.2.1, being one of the statutes passed by the council. It provided that:¹³

1. The Vice-Chancellor shall, subject to the statutes and regulations of the University and to resolutions of the Council, be responsible to the Council for

11. T 1277, line 13.

12. Section 19 of the Act.

13. Exhibit P 1: PCI.

the academic and administrative affairs of the University and for maintaining, reviewing and promoting the effectiveness, efficiency and good order of the University.

5 But I regard that as a statement of duties and responsibilities; not the conferral of power. The language of the provision is to be compared with that of para 5 of the later Statute 3.1.3, which I treat as a statutory instrument in *pari materia*, and which may thus be indicative of the way in which a delegation of power would have been effected if it had been intended. As was conceded, Statute 3.13 was not
10 in force at relevant times.¹⁴

[87] Some delegations were tendered in evidence.¹⁵ They authorised the Vice-Chancellor to incur expenditure up to certain limits. But they said nothing about power to approve a policy which could carry the consequence of substantially altering the rights and obligations of the 3000 academic staff
15 employed by the university.

[88] I also doubt that the Vice-Chancellor's position as chief executive officer would have been sufficient in itself to import the power to promulgate policy. Given the express provision that the Vice-Chancellor's powers should be as prescribed, I am inclined to think that it would have taken an express prescription
20 in order to bestow the power. I also observe that the power to make statutes concerning intellectual property which was expressly conferred on the council, and the prohibition on delegation of that power, make it even more questionable that an intellectual property provision could have been established otherwise than
25 by the council.

[89] That is not to say that the only way in which the council might have chosen to provide for intellectual property policy was by means of statute. The Act provides expressly for those matters which must be the subject of statute, and intellectual property policy is not one of them. The council was at liberty to
30 provide for intellectual property policy in the manner that it chose. But the provision for a statute on intellectual property policy suggests that the matter was sufficiently important to warrant consideration by the council, as opposed to a matter of such relative insignificance as to be swept up under the rubric of the chief executive's general powers of management. Significantly, the intellectual
35 property policy which was promulgated in 2002 was effected by council resolution.

[90] The university put forward a number of authorities in support of the contention that university management is free to act under its general power of management and formulate intellectual property policy and other policies,
40 provided that it does not trespass beyond the limits of matters relevant to the objects of the university or transgress any existing intellectual property or other legislation.¹⁶ So much if I may say so is obvious. But each case depends upon its own facts and especially the relevant documents. The point here is that the constituent documents of the university in force at the relevant time appear to
45 place the power to make intellectual policy in the hands of the council; albeit with a power of delegation (that appears not to have been exercised).

14. Exhibit P 80: PC2.

15. Exhibits P 34 and P 35.

50 16. For example, *Ex parte Forster; Re University of Sydney* [1964] NSWLR 1000 at 1007-8; *Legal Services Commission of New South Wales v Stephens* [1981] 2 NSWLR 697 at 701-2.

[91] The university also referred to s 67 of the Universities Acts (Further Amendment) Act 1997 (Vic), of which the effect was that as from 1 January 1998 the "Victoria University Council ceased to be responsible for 'management' and became responsible for 'direction'". This was said to reinforce the authority of the university management to issue policies under its general power of management. That may or may not be so. But I regard it as irrelevant. The intellectual property policy in issue is the so-called 1995 Intellectual Property Policy, and there is no evidence of any form of ratification of that policy after the amending act is said to have come into force.

[92] The university relied upon evidence that Professor Clark was the Acting Vice-Chancellor of the university at various times¹⁷ and that s 24(2) of the Act gave to Professor Clark all of the powers and duties of the Vice-Chancellor while acting as Acting Vice-Chancellor. But that appears to me to go nowhere. There was no evidence that Professor Clark approved the 1995 Intellectual Property Policy (or any other intellectual property policy) while acting as Vice-Chancellor.

[93] The university contended that a practice arose whereby Professor Clark as Deputy Vice-Chancellor in fact issued the policies and it was said that because the university conducted its affairs in that manner it must be taken that Professor Clark had the requisite authority to issue the policies. I reject that argument for two reasons: first, there is no evidence that Professor Clark did issue the policies in the fashion alleged; and, secondly, even if there were, non constat that he had authority to do so. For present purposes it is irrelevant how the university may have chosen to conduct its affairs.

[94] The university contended that Professor Wilson and Dr Feaver had acted on the basis that the policy was in existence and thus were estopped by convention from now disputing the validity of the policy. I reject that argument for two reasons as well. First, it is questionable that the doctrine of estoppel by convention has in this country survived the High Court's identification in *Verwayen*¹⁸ of the overarching doctrine of estoppel.¹⁹ Second, according to the High Court's decision in *Con-Stan Industries of Australia Pty Ltd v Norwich Winterthur Insurance (Aust) Ltd*:²⁰

Estoppel by convention is a form of estoppel founded not on a representation of fact made by a representor and acted on by a representee to his detriment, but on the conduct of relations between the parties on the basis of an agreed or assumed state of facts, which both will be estopped from denying. The existence of an estoppel based on a convention between the parties has often been recognised: *Thompson v Palmer* (1933) 49 CLR 507 at 547; *Grundt v Great Boulder Pty Gold Mines Ltd* (1937) 59 CLR 641 at 657, 675-7; *Legione v Hateley* (1983) 152 CLR 406 at 430-1; *Amalgamated Investment & Property Co Ltd (in liq) v Texas Commerce International Bank Ltd* [1982] QB 84 at 121, 126, 130-1; G Spencer Bower and A Turner, *Estoppel by Representation*, 3rd ed, Butterworths, London, 1977 at pp 157-77. But in our opinion the doctrine has no application to the present case for two reasons. First, there is no estoppel unless it can be shown that the alleged assumption has in fact been adopted by the parties as the conventional basis of their relationship: *Dabbs v Seaman* (1925) 36 CLR 538 at 549. In the absence of proof of custom, there is no evidence that the parties adopted the alleged assumption. Secondly, just as estoppel by representation requires a representation of

17. Exhibit P 80 para 5.1.

18. *Verwayen v Commonwealth* (1990) 170 CLR 394; 95 ALR 321.

19. (1990) 170 CLR 394 at 411, 446, 487; 95 ALR 321 at 331-2, 357-8, 387 but cf *Riseda Nominees Pty Ltd v St Vincents Hospital* [1998] 2 VR 70 at 77 per Callaway JA.

20. (1986) 160 CLR 226 at 244-5; 64 ALR 481 at 491.

5 fact, so too estoppel by convention requires the assumed state of affairs to be an assumed state of fact: *Greer v Kettle* [1938] AC 156 at 170; Spencer Bower and Turner, *Estoppel by Representation*, 3rd ed, 1977 at pp 167–8. The state of affairs relied on by Con-Stan is that the parties conducted their business relationship on the basis that the broker was alone liable to the insurer for the premiums. That is clearly an assumption as to the legal effect of their conduct, and not an assumption of fact. The submission with respect to estoppel accordingly fails.

10 [95] Likewise, in this case it may be doubted that the effect of the 1995 Intellectual Property Policy is “a fact”²¹ (even though there is authority that the existence or effectiveness of a contract may be the subject of estoppel by convention), and there is simply no evidence that the parties adopted the alleged assumption; be it fact or law. Before the events which give rise to this proceeding, neither Professor Wilson nor Dr Feaver knew of the 1995 Intellectual Property Policy; neither of them had ever given a moment’s thought the existence of the 1995 Intellectual Property Policy; and neither of them had had any dealings with the university in any way premised upon an understanding that the 1995 Intellectual Property Policy was in existence.

20 [96] The university sought also to invoke the presumption of regularity, based upon the execution on 4 January 2001 of an enterprise bargaining agreement between the university and the National Tertiary Education Industry Union pursuant to the Workplace Relations Act 1996. Clause 39 of that agreement provided that:

25 39.1 The parties agree the University’s existing Intellectual Property policy/statute shall be reviewed to ensure that the economic and moral rights of staff and the University in relation to intellectual property are adequately recognised and protected, and with a view to assisting the University in the goal of creating a climate which is conducive to research, invention and innovation. The review will be completed within 6 months of the date of certification of this Agreement.

30 39.2 Recognising the breadth of the Intellectual Property policy the parties agree to establish a working party to conduct the review. The working party shall consist of representatives from University Research Committee, from the NTEU, one representative from the Australian Education Union, and one representative from the Victoria University Postgraduate Association.

35 [97] As I understood the argument it was that inasmuch as cl 39 of the agreement recognised the existence of the “Intellectual Property policy/statute”, and that it could not properly have done so unless the “Intellectual Property policy/statute” were in existence, and in as much as it was known that there was no “statute”, it was to be presumed that the 1995 Intellectual Property policy was in existence and therefore must have been validly promulgated.

40 [98] I reject that argument too. The presumption *omnia praesumuntur in rite esse acta* is only applicable in cases where there is previous experience of connection between the existence of an established fact and the fact to be presumed. As it was explained in the judgment of Griffith CJ in *McLean Bros & Rigg Ltd v Grice*,²² in which the Chief Justice adopted the following passage from *Starkie on Evidence*, 10th ed:

A presumption may be defined as an inference as to the existence of one fact, from the existence of some other fact, founded upon previous experience of their connection.

50 21. But again see *Riseda*, *ibid*.

22. (1906) 4 CLR 835 at 849.

To constitute such a presumption, it is necessary that there be a previous experience of the connection between the known and inferred facts, of such a nature, that as soon as the existence of the one is established, admitted or assumed, the inference as to the existence of the other immediately arises, independently of any reasoning upon the subject.²³

[99] The presumption is not applicable to a case of this kind. There is no previous experience of connection here between the execution of the enterprise bargaining agreement and the effective promulgation of the 1995 Intellectual Property Policy. Nor is the effective promulgation of that policy the inference which arises immediately independently of any reasoning on the subject. There are a variety of possibilities just as consistent with the terms of the agreement as that the policy was in existence. They include the possibility that the form of agreement may have been adapted from an industry wide template intended to provide for cases in which intellectual policies or statutes were in existence, an erroneous assumption on the part of those who drafted the agreement that the policy had been validly promulgated, and an intention simply to allow for the possibility, without deciding, that the 1995 policy had been validly promulgated.

[100] In *McLean*, Griffith CJ also expressed approval of the observation of Brewer J in *Knox County v Ninth National Bank*²⁴ that:

It is a rule of very general application, that where an act is done which can be done legally only after the performance of some prior act, proof of the later carries with it a presumption of due performance of the prior act.

[101] Once it is recognised that there are plausible possible explanations of cl 39 of the agreement apart from the possibility of effective promulgation, I cannot see that the absence of a validly promulgated 1995 Intellectual Property Policy prevented legal entry into the collective bargaining agreement.

[102] Finally, there is a body of evidence which would tend to rebut the presumption, even if it arose:

- First, cl 11 of the document seems to contemplate the need for a specific reference to the 1995 Intellectual Property Policy in the terms and conditions of employment of staff and the enrolment of students.²⁵ There is no evidence that that ever occurred and it certainly did not occur in the case of Professor Wilson or Dr Feaver.
- Second, a memorandum from Dr John Allen to the University Research Committee dated 24 March 1999 included the following passages:²⁶

The University currently has a "draft" intellectual property policy. Although it is a "draft" (developed in early 1995), it is used as the guiding principles for determinations about ownership, attribution and financial issues relating to intellectual property generated within the University.

I believe it is timely for the University to review this existing draft policy.

Professor Beck claimed in evidence that he could not recall sighting the document but there is no doubt that the reference to "the draft" is a reference to the supposed 1995 Intellectual Property Policy.²⁷ Dr Allen's

23. The passage was approved by Mason CJ in *Dawson v Westpac Banking Corp* (1991) 104 ALR 295; 66 ALJR 94.

24. 147 US 91 (1893) at 97.

25. Exhibit P 1: VB3.

26. Exhibit D3.

27. T 231, line 17.

observations were made in 1999, some 4 years after the alleged introduction of the 1995 Intellectual Property Policy, and hence I think that they carry some weight as an admission; albeit directed to a question of mixed fact and law.²⁸

- 5 • Third, an intellectual property policy working party was created in or about May 2001 to consider the introduction of a different intellectual property policy that was eventually approved by the council on 2 September 2002.²⁹ At the first meeting of that working party Professor McQueen queried the status of the 1995 Intellectual Property Policy document and any related statutes regarding the formal endorsement by the Academic Board, the Vice-Chancellor, the Executive Committee of Council and a University Council, and Professor Beck agreed to report on the status of the existing policy at the next meeting of the working party. In evidence Professor Beck said that he did not recall what enquires he made, apart from the fact that he thought that he would have spoken to Dr Stern.³⁰ But the minutes of the next meeting of the working party reveal that Professor Beck gave the following response to the query raised by Professor McQueen:³¹
- 10
- 15

20 Professor Beck advised that the policy distributed as the existing Intellectual Property Policy had originally received endorsement by the Vice-Chancellor's Advisory Committee and was believed to have been discussed with the NTEU.

25 In evidence Professor Beck conceded that he did not believe "that the Vice-Chancellor's Advisory Committee has any delegated power at all — that its only function was to advise the Vice-Chancellor — and hence that any endorsement by the Advisory Committee would have been insufficient to bring into effect the 1995 Intellectual Property Policy".³²

- 30 • Fourth, a number of contemporaneous documents refer to the 1995 Intellectual Property Policy in terms which imply lack of formal endorsement. For example, a memorandum prepared by Professor Beck dated 3 March 2000 stated that "the University currently has a document on Intellectual Property that was prepared in the mid-1990s".³³ That suggests a lack of formality inconsistent with the promulgation of the policy.
- 35

- 40 • Fifth, if the 1995 Intellectual Property Policy had been approved in 1995 it is to be expected that it would have been included in the university's human resources manual along with other university policies that bore directly upon the terms and conditions of the employment of university staff, such as the Paid Outside Work Policy and the Outside Study Program Policy. It was not included.

- 45 • Sixth, so far as the evidence goes, there was never any publication of the 1995 Intellectual Property Policy to the university. As has already been

28. *Grey v Australian Motorists & General Insurance Co Pty Ltd* [1976] 1 NSWLR 669 at 684; *FAI Traders Insurance Co Ltd v Savoy Plaza Pty Ltd* [1993] 2 VR 343 at 351.

29. Exhibit P 1, para 12.

30. T 240, line 28.

31. Exhibit D7.

32. T 242, line 21.

33. Exhibit D8.

recorded, the document was placed on the Vice-Chancellor's registry database and a reference was also made to the document in a report prepared for a Commonwealth quality assurance team. But in contradistinction to other policies bearing generally on the terms and conditions of university staff, Professor Clark was not aware of any publication of the policy in any of the ways that were customary for that sort of exercise.³⁴

The use of university time and resources

[103] It was next submitted for the university that even if the Intellectual Property Policy were not in force or were not binding as a term of employment, it was enough to make the invention the property of the university that Professor Wilson and Dr Feaver had made extensive use of the university's time and resources in development of the invention. Reference was made to a number of authorities in support of the principle that one is to have regard to all the circumstances of a case in order to determine whether an invention has been so much made in the course of employment as to belong to the employer, and it was said that there was here just so much use of university time and resources that one had to conclude that the invention belonged to the university.

[104] I do not think that is correct. The law is well settled upon the position of an officer or employee who makes an invention affecting the business of his or her employer. It is an implied term of employment that any invention or discovery made in the course of the employment of the employee in doing that which he is engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, is the property of the employer and not of the employee. Having made a discovery or invention in course of such work, the employee becomes a trustee for the employer of that invention or discovery, and he is therefore as a trustee bound to give the benefit of any such discovery or invention to his employer.³⁵ But the mere existence of the employer/employee relationship will not give the employer ownership of inventions made by the employee during the term of the relationship. And that is so even if the invention is germane to and useful for the employer's business, and even though the employee may have made use of the employer's time and resources in bringing the invention to completion. Certainly, all the circumstances must be considered in each case, but unless the contract of employment expressly so provides, or an invention is the product of work which the employee was paid to perform, it is unlikely that any invention made by the employee will be held to belong to the employer.³⁶

[105] It was then submitted for the university that this case is different, in as much as Professor Wilson and Dr Feaver were subject to express contractual provisions (in the form of the university's mobile telephone policy and email policy and computer policy) not to use the university's resources for purposes other than university purposes, and to implied contractual obligations not to enrich themselves or obtain other benefit or advantage at the expense of the

34. T 1291, line 9.

35. *Triplex Safety Glass Co Ltd v Scora* [1938] Ch 211 at 217; [1937] 4 All ER 693 at 699.

36. *Worthington Pumping Engine Co v Moore* (1902) 20 RPC 41; *British Reinforced Concrete Co Ltd v Lind* (1917) 34 RPC 101; *Triplex Safety Glass Co Ltd v Scora*, *ibid*; *Patchett v Sterling Engineering Coy Ltd* (1955) 72 RPC 50 at 58; *Spencer Industries Pty Ltd v Collins* (2003) AIPC 91-896 at [64]-[67].

university or to assist others to do so. It was said to follow from their breaches of those obligations that they should be taken to hold the invention for the benefit of the university.

5 [106] I do not think that is correct either. I accept that Professor Wilson and Dr Feaver made use of the university's resources for the purposes of developing the invention (although there is a dispute about the degree of use which for the time being need not be determined). I also accept that they may have breached the mobile telephone policy and the computer policy and perhaps also contractual obligations of good faith and fair dealing not to misuse the resources of the university for some sorts of private endeavour. But the remedy for breach of contract is damages, not constructive trust or account,³⁷ and as far as the evidence goes the amount of any damage suffered is well within the jurisdiction of the Magistrates Court. To say that they were in breach of an implied obligation of good faith and fair dealing takes the matter no further. It is still a breach of contract. The law in this country knows nothing of the sort of "shop rights" that are recognised in the United States.³⁸

Within the scope of employment

20 [107] It was next submitted for the university that it was enough to make the invention the property of the university that Professor Wilson and Dr Feaver were paid to be researchers and that the invention was the product of research. In the plaintiff's contention it did not matter that neither man had before engaged in the sort of research involved in producing the invention; rather, it was sufficient that the exercise could be characterised as one in the nature of research or, if that were not so, that it was research closely related to the fields of economics and international trade in which it was expected that the two men would conduct research.

30 [108] I consider that the first part of that proposition is incorrect. It is not enough that the process of invention can be characterised as one of research. It all depends upon the nature of the research that the employee is retained to perform. The point is illustrated by the decision in *Charles Selz*.³⁹ There an employee had been retained by a lampshade manufacturing company as a manager "conversant with design production, staff and general business routine". In the course of his employment he learned of a method for the application of spray-plastic packaging and later he adapted that method to make it suitable for covering lampshades and a number of other articles. He arranged for a patent application to be filed by a company with which he was associated, and the company by whom he was employed claimed that they were entitled to the patent. That contention was rejected. It was held that whatever his duty to "design", it did not extend to designing methods of manufacture. The obligation was to be understood as taking its meaning from the nature of the employer company's business and, although that company was engaged in manufacture, it did not make any of the materials used in the manufacture. An associated company did, but that was not enough to entitle the employer company to the patent. In order to succeed it had to be shown that the invention was something

37. *Reading v R* [1948] 2 KB 268 at 276; J Glover, *Commercial Equity: Fiduciary Relations*, Butterworths, Sydney, 1995 at [5.56].

38. See D S Chisum, *Chisum on Patents*, Lexis, New York, 1978, looseleaf, para 22.03[3][b].

39. *In the Matter of Charles Selz Ltd's Application to the Comptroller under s 46 of the Patents Act 1949* (1953) 71 RPC 158.

within the ambit of Selz's day-to-day obligations to the employer company. Likewise with an employee retained to conduct "research", the content of the duty to research is informed by the business of the employer or, in this case, the activities of the School of Applied Economics in which Professor Wilson and Dr Feaver were retained to conduct their research.

[109] A good deal of evidence was given about the extent to which the university was focused upon research, both as an end in itself and as a means of establishing links and partnerships with business for the practical and commercial application of research:

- (1) Professor Beck, deposed that research at the university is funded from internal funding and external research income from grants, consultancies and industry and government partnerships. He said that in the years 2002 and 2003, the university's budget to fund research from external sources was \$16.33m and \$20m, respectively. In addition, the university provided funds for research support including scholarships, strategic initiatives and administration. Staff time involved in research was funded from the university's operating grant received from the Commonwealth Government. These levels of research had been achieved as a result of strategies implemented in 1998 to double the university's external research income over a 5 year period. They included:
 - (a) the development and implementation of a new Research Management Plan, which would guide the development and consolidation of research within the university and increase the research undertaken at the university and the level of external research income;
 - (b) the establishment of key research areas and research centres so that university research would be of high quality, focused and deliver research outcomes which are relevant and of value to industry, government and society;
 - (c) the building of a strong research base and culture within the university so that the university becomes regionally, nationally and internationally recognised for high quality, problem orientated research in focused areas;
 - (d) the achieving of research excellence through research training programs and well skilled research staff and students.
- (2) Professor Beck also explained that the university's research strategies and plans are reviewed and revised regularly having regard to government policies on research and research training and the research needs of industry and public sector organisations. For example, following the release in December 1999 of the Commonwealth Government White Paper entitled "Knowledge and Innovation: A Policy Statement on Research and Research Training" (the White Paper), the university revised its research strategies to focus more on the exploitation and commercialisation of intellectual property resulting from research with the expectation of further increasing the university's research income from industry and government sectors. The White Paper set out the Commonwealth Government's framework for Australia's higher education research and research training capability and noted that university research should become more entrepreneurial, seeking out opportunities in new and emerging fields of research that

will provide social, cultural and economic benefits to Australia. It suggested that by being alert to emerging opportunities, more entrepreneurial in their focus, flexible in their organisation and more responsive to business needs, institutions should attract more private investment.

- (3) The result was said to be even more extensive growth in the university's research program. The number of students enrolled at the university for higher degrees by research has increased from some 100 in 1991 to some 650 in 2001 and the university's external project research income has also more than doubled since 1998. Table 1 below sets out the external project research income to Victoria University from 1992–2002.

Table 1: External Project Research Income to Victoria University

1992	\$1.15m
1994–98	\$3–4m per year
1998	\$3.28m
2000	\$6.00m
2001	\$7.10m
2002	\$8.00m (estimated)

- (4) Professor Beck said that in 1998, the university's external project research income was approximately \$3.28m. In 2000, the external project research income increased to over \$6m. Of that amount, approximately \$1.8m, representing 20% of the university's external research income, was received from private industry partners including BHP, Ericsson, Tocovite Pty Ltd, HAC Technologies and Polychip Pharmaceuticals. In the year 2000, the university also received significant research income from public sector organisations including Melbourne Water, the Meat Research Corporation, Fire Code Reform Centre, RTA/Vic Roads and Victorian Education Foundation. In the year 2000, approximately 21% of the university's external project research income, that is \$1.4m, was received from such public sector organisations. In the year 2001 the university received \$7.1m in income from external research projects undertaken by the university for industry and public sector organisations. For the year 2002, it is estimated that the university's external project research income will be \$8m.

- (5) Professor Beck also gave evidence as to the practical and commercial application of some of the research undertaken in the university and in that connection he referred to the establishment in 1995 of the TradeData online information service for business and government. That service was an initiative of the Centre for Strategic Economic Studies in collaboration with the Department of Applied Economics, and in return for a fee it was able to provide users with detailed up-to-date information on thousands of traded products, including market information on the size and price structure of markets, assessment of market share, and identification of market opportunities internationally (TradeData business). The TradeData initiative was aimed at securing long term commercial revenues to support the research activities of the Centre of Strategic Economic Studies.

- (6) It was said that Professor Wilson was significantly involved in the establishment of the TradeData database. On the 15 December 1997, he and Professor Peter Sheehan, Director, of the Centre of Strategic Economic Studies, signed a memorandum of agreement to formalise and give effect to a partnership between the Centre for Strategic Economic Studies and the Department of Applied Economics, to own, control and develop the TradeData business. It provided for payment of \$400,000 by the Department of Applied Economics to the Centre for Strategic Economic Studies in return for a 20% share of the full TradeData business and recorded that it was the intention of the parties to build TradeData over the next 5 years into an international business with sales of at least \$3–5m pa and with a profit ratio in excess of 50%. The key strategies to give effect to this intention were set out in the memorandum as follows:
- (i) increasing the number of countries whose data is included on the system from four at the present time (Australia, USA, Indonesia and Japan) to nine by mid 1998, and subsequently to a much higher figure;
 - (ii) development of a range of TradeData products appropriate to the needs of specific markets;
 - (iii) extensive outsourcing of the marketing of TradeData products, using firms and individuals to market these products to specific industries and client groups on a commission basis;
 - (iv) development of improved data warehousing and online analytical processing capabilities, using the most advanced software products available, and of an internet based delivery system; and
 - (v) development of joint venture or other appropriate arrangements to market TradeData products in Indonesia, Malaysia and China.
- (7) The memorandum also stated that it was the intention of the parties to cooperate to enhance the use of the TradeData systems and products in the teaching and offerings of the Department of Applied Economic, both in Australia and Asia, and especially in the Master's program in international trade, and to use the expertise of the department in the provision of training programs for TradeData users, in both Australia and Asia. The Department of Applied Economics was to have free and complete access to the TradeData systems, products and data resources for both teaching and research purposes, including use by research students, and since the establishment of the TradeData business in 1995, there has been considerable research and development invested in the TradeData online information service.
- (8) By licence and option agreement dated 21 December 2001 the university granted an exclusive licence in favour of TradeData International Pty Ltd for a period of 3 years with an option to purchase the TradeData business and the core.

[110] The intended purpose of all this evidence, as I understood it, was to persuade that the invention was something well within the ambit of the kind of research which it was commonplace for the university to conduct and which it regarded as an essential and developing part of its money-making operations. But it appears to me that with the possible exception of the TradeData database — and even that was inherently different to the invention — the net effect of the evidence is that it was never been part of the activities of the School of Applied Economics to invent internet based e-commerce systems. So far as the evidence

goes, and it accords with one's expectations, the sort of research which had been undertaken down to late 1999 was confined to academic research of the kind that is directed to the preparation and presentation of peer reviewed learned papers.⁴⁰

5 [111] It may well be that other areas of the university were involved in the sorts of practical or applied research that are relevant to the development and implementation of a computer based e-commerce system. The physical science departments and the information technology departments present as possibilities. But by parity of reasoning with the decision in *Selz*, I do not regard that as relevant to the determination of the sorts of research that Professor Wilson and
10 Dr Feaver were retained to conduct.

[112] The second part of the plaintiff's argument is more persuasive, for logically there must come a point at which an activity is sufficiently closely related to another or springs so naturally from the other as for some purposes to be treated as if it were part of the other — it is a question of fact and degree —
15 and the facts in this case are that the duties of Professor Wilson and those of Dr Feaver were expansively defined.

[113] As head of school, Professor Wilson had authority to approve expenditure of the School of Applied Economics: until 2001, up to the amount of \$20,000 and, after 2001, up to \$5000; negotiate contracts or agreements on behalf the
20 School of Applied Economics, including CIBRE; develop proposals with potential partners or clients for the delivery of teaching, research and consultancy services both in Australia and overseas; and commit staffing and other resources to planning and development of teaching, research and consultancy initiatives, as well as being responsible for the school's research program and the supervision
25 and management of research activities of staff within the school. Dr Feaver's duties included teaching, research and administration, contributions to the design, development and administrative processes in relation to the department's postgraduate programs in offshore markets such as Hong Kong, Singapore and Malaysia and assistance in the establishment of CIBRE in the areas of project
30 management, budgeting and the organisation of activities that promote the profile of the Faculty of Business and the university in a close working relationship with the Centre of Strategic Economic Studies' TradeData database and its initiative to offer its services via the internet. Hence, it is possible to suppose a significant range of research and other activities sufficiently within the penumbra of
35 Professor Wilson's and Dr Feaver's specialties as for some purposes to be included in the scope of the duties which they were paid to perform.

[114] To that may be added that a fundamental objective of CIBRE was to investigate the transactional aspect of international exchange of goods, services and capital flows as well as that it was written in the proposal which led to the
40 establishment of CIBRE that:

Global economic integration has prompted dramatic changes in international business practices which means that there is much to be researched and taught as firms adapt to the new and quickly evolving forms of exchange. These changes are expected
45 to have a profound impact on the structure of markets and the management and performance of firms. *Although a theoretical investigation of these changes is important, equally as important is how firms adapt to these changes by altering their management structures, strategic behaviour and operational practices.*

50 40. cf *Greater Glasgow Health Board's Application* [1996] RPC 207 at 212; and see Loughlan, *Of Patents and Professors: Intellectual Property, Research Workers and Universities* [1996] 6 EIPR 345 at 346 and 349.

In addition to embracing traditional issues such as the mechanics of international transactions and the added complexities of cross-cultural interaction, emerging issues relating to electronic commercial exchange is now an area of vital importance to international producers of goods and services. Areas of focus will also include how to best and most efficiently utilise the new transactional technologies in the workplace as well as to determine which processes are appropriate and relevant at a particular stage in a firm's development. [Emphasis added]

...
In addition, the investigation and clarification of new developments affecting the regulation of international trade, under the auspices of CIBRE, performs a vital service to assist the business community in understanding multilateral developments.

... the manipulation and analysis of data is becoming increasingly indispensable.

A key research and educative focus of the CIBRE will be to focus on the role of international business data and its uses in order to assist industries and firms in gaining an advantage in competing in the international marketplace. In working closely with the University's Centre for Strategic Economic Studies and utilising the resources of the CSES TradeData database. TradeData's massive potential as an important strategic tool available to Australian enterprises will be extensively promoted.

...
As a means of generating innovative ideas which are relevant both to researchers and the broader business community, the Centre will be expected to act as a means of establishing links between the University and a range of external groups and organisations. In particular, the CIBRE will concentrate on developing constructive working relationships with the local business community as well as both State and Federal Government departments, agencies and authorities.

... CIBRE will actively seek out research funds from a range of Government and not government sources. Non-government sources of funding which may be sought is [sic] through the promotion of staff expertise in the form of consultancies.

...
In order to provide a vital service to the broader business community, as well as being useful for local and offshore student reference, a key function of the CIBRE will be to assimilate and disseminate key economic and trade data. The purposes of doing so is to address the deficiency in the availability of easily accessed, understandable and consolidated data including economic, trade and key indicators.

...
In building on the base to be established in 1998, the strategic objective of CIBRE in 1999 will be to place greater emphasis on the Faculty's research and consulting activities and resources. This will include:

... the development and drafting of a comprehensive business plan to form the basis of a comprehensive consultancy encompassing a trade advisory service, business data analysis and forecasting as well as country risk analysis and assessment.

[CIBRE] will perform a range of activities directed towards progressing the teaching and research of international business to a new stage of development at Victoria University.

...
Finally, the research objective of the CIBRE will emphasise an applied approach to developments in international business practice and regulation. These areas of concentration will enable the development of links between the University, governments and the business community.

[115] All things considered, however, I am not inclined to accept that the sort of research which Professor Wilson and Dr Feather undertook in developing the system was sufficiently related to the fields of economics and international trade in which they were expected to conduct research as to be treated, for that reason alone, as research which they were retained to perform.

[116] Before the advent of the WTO proposal it had never been conceived that they were retained to conduct the sort of research that could result in a patentable invention.⁴¹ So far as I can see, the sort of research which was expected of them was limited to the kind of intellectual analysis which typifies social science academic inquiry, even in the applied disciplines. As Professor Wilson put it in his evidence, and on this point his evidence was not challenged:

I would also say though that the creation of an invention is something that I'm not required to do, I have never been expected to create an invention in my role at the university and the fact that we did was really the result of our own joint endeavours and I never saw it as part of the research role and function that I was performing for the university. And to emphasise that fact, I kept an ongoing research agenda all through this inventive process.⁴²

[117] Dr Feaver's evidence, on this point also unchallenged, was to similar effect. He regarded the process as one of systems engineering outside the scope of his employment:

Well, it certainly appeared obvious to me that software engineering was outside the ordinary course of my employment, so that didn't seem to be something that was hugely in dispute and it was just a question of being prudent and getting confirmation as to whether my understanding of ordinary course of employment had any particular specific legal relevance in the context of intellectual property that I was not aware of, which is why we sought that advice from Freehills.⁴³

[118] Some of the recent English decisions on research obligations are consistent with that view of the matter too, although they are based upon s 39 of the English Patents Act 1977 and there is doubt as to whether that provision is truly declaratory of the situation which existed under common law prior to its coming into force.⁴⁴

[119] But there is then a third way of approaching the matter which in my view does lead to the conclusion that the work done by Professor Wilson and Dr Feaver on the invention was work which they were retained to perform. It may not have been the sort of research envisaged in their terms of engagement,⁴⁵ but the facts as I find are that Professor Wilson and Dr Feaver did start out on the project on the basis that they should do the work on behalf of the university and that they proceeded with the project on behalf of the university until resolving with Mr Astill to take the intellectual property for themselves. That being so I consider that there is basis to conclude that Professor Wilson and Dr Feaver were retained to perform the work which they undertook on the invention.

[120] Self-evidently the work which an employee is retained to perform can and often does change over the period of employment, and sometimes so as to be distinctly different in nature to what was envisaged at the outset; for example where an employee is promoted or reassigned. Other times, an employee may be retained at the outset of the employment relationship on a general basis providing no more specific guidance as to the work which he is to perform than that he is

41. cf *Patchett v Sterling Engineering Coy Ltd* (1955) 72 RPC 50 at 58; *Electrolux Ltd v Hudson* [1977] FSR 312 at 326; *Spencer Industries*, above at [69].

42. T 1262.

43. T 1963.

44. *Greater Glasgow Health Board's Application* [1996] RPC 207 at 210; cf *Harris' Patent* [1985] RPC 19 at 28; cf *Vokes v Heather* (1945) RPC 135 at 136; *Adamson v Kenworthy* (1932) 49 RPC 57.

45. cf *Stack v Brisbane City Council* (1999) 47 IPR 525 at 540 per Cooper J.

to do the work assigned him by his foreman or supervisor. In such a case the nature of the work which the employee is retained to perform is capable of changing daily if not more frequently. Consequently, the law in this country is that the nature of the work which an employee is retained to perform at any point of time must be assessed by reference to the work performed at that point of time.⁴⁶

[121] The law in the United States appears to be similar. The Supreme Court decided in *United States v Dubilier Condenser Corp*⁴⁷ that an employee who makes an invention during the period of employment will be held to own the invention unless the employee was specifically hired or is deemed to have been hired to invent the specific invention; and the employer bears the burden of establishing that the employee was hired to create the specific invention. The fact that research may be part of an employee's job is not sufficient to establish that he was hired to invent a specific invention that may be made in the course of that research.⁴⁸ Therefore it has been suggested that typical university faculty members would not be considered employees that are "hired to invent" merely because research is part or even all of their job responsibilities.⁴⁹ But "even though employees were not hired to invent at the outset of the relationship, their job may change so that they later may be deemed to be hired to invent. Their status at the time of the invention determines their rights".⁵⁰ Hence in *State v Neal*⁵¹ an invention was held to be owned by an employer in circumstances where the employer had been retained at the outset on one basis which did not extend to making the invention but the project was later extended by "verbal instruction" to include methods which were the subject of the invention.

[122] As I have observed already, Professor Wilson had a considerable degree of authority and autonomy as head of the Department of Applied Economics to determine the sort of research and other work which might be undertaken within the school. Of course there were limits to that power — no doubt it would have been beyond the scope of his authority to direct the carrying out of work quite unrelated to the school's areas of interest — but the design of the system was hardly unrelated to the school's areas of interest. It was essential to the establishment of WTO and hence to the establishment of the online courses. There appears too to have been a degree of flexibility in what might be done by way of work in the school, as is demonstrated by the fact that Professor Wilson had no hesitation in authorising the preparation of the online course content, well before receipt of any express approval from the relevant authorities within the university. It is apparent as well that Dr Feaver was accustomed to acting in accordance with directions given to him by Professor Wilson. That is demonstrated by the way in which he responded to the call to attend the WTO presentations and thereafter to prepare the online course component. Hence it appears to me to have been within power for Professor Wilson to determine that

46. *British Reinforced Concrete Engineering Co Ltd v Lind* (1917) 34 RPC 101; *Edisonia Ltd v Forse* (1908) 25 RPC 546; *French v Mason* [1999] FSR 597 at 602.

47. 289 US 178, amended 289 US 706 (1933).

48. *Kaplan v Johnson* 409 F Supp 190 at 192 (ND Ill 1976), rev'd in para, sub nom, *Kaplan v Corcoran* 545 F 2d 1073 (7th Cir 1976).

49. Chew, "Faculty-Generated Inventions: Who Owns The Golden Egg" (1992) *Wisc LR* 259; *Chisum on Patents*, at para 22.03[2].

50. *Ibid* at 264, note 20; see also *Houghton v United States* 23 F 2d 386 at 390 (4th Cir 1928), cert den, 277 US 592 (1928).

51. 12 So 2d 590 (1943) (Supreme Court of Florida).

he and Dr Feaver should work upon the system design as a university project and that, if he did so, that both men were for relevant purposes retained for the time being to invent the system.

5 **Work undertaken in a private capacity?**

10 [123] It was submitted for the defendants that I should not be satisfied that Professor Wilson ever determined that the system design be undertaken as a university project, as opposed to one upon which he and Dr Feaver were to work in a private capacity. It was said I should accept evidence of Professor Wilson that WTO insisted that the work be carried out by Professor Wilson and Dr Feaver in a private capacity, or that Professor Wilson decided from the outset that it should be carried out in a private capacity because it was so far removed from the areas in which he and Dr Feaver were skilled. The contention was that although WTO wished the university to be involved in the provision of the online education aspects of the project, WTO was insistent that Professor Wilson and Dr Feaver act in their private capacities in designing the system and, in any event, that Professor Wilson was so concerned about moving outside established "skill sets" and thereby exposing the university to liability, if anything went wrong, that he decided that the work would not be undertaken in the university's name.

20 [124] I reject the suggestion that WTO insisted that Professor Wilson and Dr Feaver act in a private capacity. Quite apart from the inherent improbability that WTO would wish the university to be any less associated with the system architecture than with the provision of the online education course, the first time that any suggestion to that effect was made was by Professor Wilson was at the trial. Until then, which is to say, in the affidavits he swore in anticipation of the interlocutory proceedings and the trial, he said only that he regarded the work as beyond the range of his "skill set" and he wished to protect the university from any liability which might result if the work proved unsatisfactory. According to that version of events:

30 90. I explained to Buccheri that I had no skills whatsoever in the area of software architecture or engineering, schematic specification drafting or business process mapping or business systems and that I was not qualified to do that work, nor was I employed by VUT to do anything of that kind. I said that I would be happy to help to the extent that I could with the preparation of the schematic specifications for the software, but that I would have to carry out that work in my personal capacity. I had no knowledge or skill in the area of software architecture, the preparation of schematic software specifications, software engineering or business process mapping or business systems. I considered that it posed an unacceptable risk for the University if I agreed to help in my capacity as a Professor of Applied Economics of VUT and thereby held myself out as being qualified in these areas and able to prepare schematic software specifications. I told Buccheri that I was uncomfortable with the idea of preparing the schematic specifications as part of the development of online education and training course, and said that the two tasks must be separate.

40 91. Buccheri stated that he accepted that all the work that I undertook for WTO other than that related to the development of the online diploma course would be undertaken by me in my personal capacity as a consultant to WTO.⁵²

45 [125] That version of events may be contrasted with the following competing version of events which he gave in cross-examination:

50

52. Exhibit D34: paras 90, 91.

HIS HONOUR: Did you say Buccheri insisted that you do it privately, that he would not deal with the university on the exchange? A — Yes.

Q — Did he tell you why? A — I believe that they — it was a financial reason in a sense that they didn't have a lot of money at the time and they knew they'd have to pay the university for the development of any schema, if you like; that was one of the reasons. Secondly, we were comfortable working with Buccheri at that stage. I knew him well from the past and he was happy or comfortable with the notion that we could acquire the skills that were needed to develop up that schema.⁵³

[126] It may also be compared with the synthesis of the two competing versions of events which he later attempted:

MR KENDALL: Is there anywhere in your affidavit, either of them actually, either of your affidavits, where you make the statement that Mr Buccheri insisted that you, Dr Feaver and Mr Astill carry out the project, that part of the project involving the electronic market exchange, in your own names? A — I don't believe there is.

Q — Or for yourselves? A — I don't believe there's any statement in the affidavits to that effect.

Q — It was, nevertheless, you insist, the case that it was Buccheri who insisted that it be — that you undertake this project privately, is that right? A — Buccheri was very keen for us to help him build the schemer (sic) and I made it clear that the only way that could happen is if I insulated the university from risk and therefore that meant doing it in my private capacity, so he insisted in those ...

Q — Can you point to any letter —? A — No, I can't ...⁵⁴

[127] The evidence on the subject given by Dr Feaver was equally unconvincing. In his affidavit of 31 October 2003, he too suggested that the impetus for Professor Wilson and he to act in a personal capacity rather than on behalf of the university originated with Professor Wilson, although Dr Feaver stopped short of suggesting that any such thing was ever conveyed to WTO. He deposed that:

36. ... I recall that Hutchins and Buccheri seemed insistent that in addition to the formulation of a plan of the delivery of online international trade education, Ken and I also assist them by clarifying the business process functions that would be required to construct some sort of internet technology that was to function as an online exchange mechanism. The purpose of this business process clarification was to produce a series of documents that might assist a technology partner to develop more detailed specifications to be used in the design, development and programming of an electronic trade exchange. I recall that Hutchins and Buccheri were almost completely focused upon the "exchange" aspect of the trading environment. This request concerned me because I am not a microeconomist and have no particular qualifications relating to the analysis of microeconomic inter-relationships.

37. I said something to the effect that the development and specification of a technology solution did not fall within my scope of competency. I had no skills in the area of software architecture, schematic software specification, business process mapping or business systems design. However, I considered that this presented an intellectual challenge, and thought I would give it a go. *Ken was concerned that, as the work fell outside the scope of CIBRE and our areas of qualification, we should carry out this work in our personal capacity quite separate from the University. Ken said that he considered that it posed a risk to VUT for us to hold ourselves out as being qualified in the areas of*

53. T 1213.

54. T 1215.

software architecture, schematic software specification or internet business systems design, when we had no experience or expertise in these areas.
[Emphasis added]

5 38. However, Ken and I said that we were willing to examine the problem and told Hutchins and Buccheri that we would see whether we could assist ...

10 [128] Then, after sitting in court and listening to what Professor Wilson said in his oral evidence, Dr Feaver swore in supplementary examination in chief that he believed that it was Buccheri who insisted that he and Dr Wilson act in a personal capacity:

15 MR COLLINSON: Did you discuss with them this question of whether this work on the schemas [sic] would be performed in a private or personal capacity? A — I can't recall having a discussion about that issue but it was clear to me — I was only involved in some of the meetings between the WTO people and Ken so I can't say certainly what the specifics of any arrangement were but by the time I got to that process *it was clear to me that Joseph, in particular I recall, wanted Ken and I to work in a personal capacity with WTO, and I remember that he was keen to be able to include Ken and myself as part of the WTO team, and this caused problems because on the one hand the*
20 *Online Education Initiative was a university initiative but he wanted us to operate in some sort of personal capacity so that they could promote their initiative as one where we were named specifically in their, I suppose, in the promotional material was one indication, and that's certainly what they did.* In order to do that there needed to be, I guess, some sort of — a more close relationship between Ken and I in particular in the initiative. Joseph I remember mentioned employment with WTO in order to achieve that
25 objective and that wasn't something at that time that was particularly appealing to either Ken or I. I can't remember the specifics but certainly employment was mentioned in September on a number of occasions as one means of having us locked into their organisational structure so that we could be seen as part of their team ... [Emphasis added]⁵⁵

30 [129] Then in cross-examination the ground shifted again:

MR KENDALL: If I could just take you to one last matter; you have said that Mr Buccheri required that you and Professor Wilson undertake the market exchange part of the project in your private capacities? A — Yes, I believe I ...

35 Q — Could I show you Volume 5A of the court book — and just before you look at that can you say what precisely Mr Buccheri said about private capacity? A — I can't remember what he said precisely, I have said that from the outset.

...
40 Q — Nowhere in this letter is it suggested to Mr Hutchins or Mr Buccheri that you and Professor Wilson were to undertake your work in this project, that's the market exchange, in your own names or in your private capacity, is there? A — I think that is not entirely correct. In the explicit words that you're seeking me to point out they don't exist within this letter, however, item No 1 in this letter was put there in relation to exactly the reason I expressed at the outset for why Joseph and Ken — why Joseph asked Ken and I to act in our personal capacities. They wanted us to act in our personal capacities so we could be seen to be part of their team.⁵⁶

45 [130] In addition to those inconsistencies:

- There is the email from Peter Yoong of WTO of 31 August 1999 to which I referred earlier in this judgment.

50 55. T 1508.

56. T 1769.

- In an earlier email of 6 September 1999⁵⁷ Peter Yoong of WTO, after referring to the work which was to be done on the trading room, continued:

R&D — I'd like to explore other facilities we can get via support from VU. Market Potential, Franchise opportunities, Market Definitions etc K have some guidelines done by need further intellectual input into this. *The University would give it great credibility.* Let's talk about it.

- In a document called "KienLock Trading Room" which was prepared by WTO on or about 1 November 1999 and sent by email to Professor Wilson on or about 2 November 1999⁵⁸ it was made plain that WTO were perfectly happy that the work be done in the name of the university.
- The objective evidence is that until Professor Wilson and Dr Feaver returned from the trip to New York in January 2000, every document and presentation prepared in connection with the development and presentation of the system was badged with the CIBRE and university logos.

These things taken together render very improbable the idea that Buccheri and WTO were insisting that Professor Wilson and Dr Feaver act in a private capacity rather than in the name of the university.

[131] I also reject the idea that Professor Wilson and Dr Feaver chose to act personally in order to avoid exposing the university to liability. Mr Astill deposed in his affidavit of 31 October 2003 that he had a specific recollection of Professor Wilson saying at the meeting of 15 September 1999 that as creators of the intellectual property the three of them would be liable if the proposed solution to the WTO exchange were implemented and failed, and hence that it was important to ensure that the university was not associated with what they were about to do; lest liability flow to the university. But I doubt the accuracy of that recollection. Nothing is said about the matter in Mr Astill's notes of the meeting, and if the event were as memorable as Mr Astill would have me now believe I think it is likely to have been recorded. Furthermore, it is one thing to wish to avoid the university being held liable for something which the three men were about to do in a private capacity. It is quite another to decide to act in a personal capacity because of fear that if the work were done within the university, the university would be exposed to liability.

[132] In any event, I do not accept that Professor Wilson or Dr Feaver was concerned about exposing the university to liability if the work were done in the university. From the outset Professor Wilson was keen to offer the services of the university and Dr Feaver was keen for the university to tackle the challenge. There is no other satisfactory explanation for the contents of Professor Wilson's letter to Hutchins of 5 August 1999. It is true that Professor Wilson deposed in oral evidence that at the time he wrote the letter he did not have too much idea about what was involved in the system design and that he only wrote the letter in order that WTO might use it to convince potential investors that the project was feasible. But I do not accept that evidence. By the time Professor Wilson wrote the letter he had had the benefit of at least two substantial presentations on

57. Exhibit P 94.

58. Exhibit P 116.

the system and several hours of conference with Buccheri and Hutchins. By then both he and Dr Feaver knew a good deal about the system.

5 [133] Moreover and just as importantly, it is incredible that an academic of Professor Wilson's seniority and achievements would write such a letter on behalf of the university, especially knowing that it was to be used to solicit potential investors by reference to the university, or that Dr Feaver would stand by and allow it to be sent, if they did not both believe that the university had the capacity to do the job. Absent a belief in the truth of its contents, the letter would have been actionably misleading and deceptive, if not fraudulent, and altogether
10 inconsistent with Professor Wilson's professed concerns about exposing the university to liability in an area of activity beyond established skill sets.

[134] In the third place, when a schema was subsequently prepared and presented in Malaysia, Professor Wilson directed that the logos of the university and CIBRE be added for the purposes of presentation, and I conclude that he did
15 so in order that potential investors believe that the system design was sponsored and approved by the university. I reject as disingenuous Professor Wilson's oral evidence that the only reason he ordered the addition of the logos to the design schema was to protect the university's interests in the online education proposal.⁵⁹ That is not the impression that the document conveys. And when later
20 PowerPoint presentations were prepared and presented to New Tel and the Billets in respect of the disintermediated model of the system, which did not envisage the provision of any online education, the presentations were plastered with references to the university and CIBRE in a fashion that was plainly calculated to create the impression that the university was actively involved in the design of
25 the system architecture.⁶⁰

[135] I do not accept evidence given by Dr Feaver that the PowerPoint presentation prepared for the Billets was not shown to the Billets or his evidence that the university and CIBRE logos were removed from the version of the PowerPoint presentation which was actually shown to the Billets. I am unable to
30 resist the conclusion that the answers which he gave to questions on the subject put to him in cross-examination were not truthful.⁶¹ They were both internally inconsistent and inconsistent with his affidavit evidence and as the examination went on, his attitude appeared to be that he would say on that subject whatever he thought would get him out of the problem into which his previous answers had
35 got him.

[136] Finally, and so far from Dr Feaver having any fears about exposing the university to liability for work in which it was not particularly skilled, in a briefing document which Dr Feaver forwarded to Mr Malone of New Tel on
40 8 December 1999, it was written that:

In order to move this initiative to its next stage, development funds need to be allocated to each project and the overall project integration. The Centre for International Business Research and Education (CIBRE) at Victoria University is well placed to undertake such work. The research and project development would be undertaken at
45 Victoria University with CIBRE on behalf of IP3 Systems Pty Ltd.

[137] In the result I find that Professor Wilson did determine that he and Dr Feaver should carry out the system design as a university project and that at

50 59. T 1222-3.
60. T 1623.
61. T 1627-1631.

least until they agreed with Mr Astill on 23 September 1999 that the intellectual property would vest in the three of them, the work which Professor Wilson and Dr Feaver did upon the system design, and the assistance given by Mr Astill, were done and given for the benefit of the university.

[138] I am strengthened in that conclusion by the way in which Professor Wilson and Dr Feaver subsequently described the project in documents produced before there was any threat of litigation. I have referred already to the letters which were written to GE and New Tel in which the work done to that point was described as having been done by a research group, and in an IP3 Systems Information Memorandum which was published on 25 July 2001 and signed by the Professor Wilson and Dr Feaver as directors of the company, the following was set out under the heading "The development to date":

The history of the development of the Electron and Ether goes back to late 1999, when the idea emerged as the result of *an academic research project*. The research was undertaken by two of our company's founders. The project, to evaluate the various e-commerce solutions on offer, led them to the conclusions alluded to above — that the offerings had been developed from the technology standpoint, rather than basic, globally accepted economic and business principles, and were therefore flawed. [Emphasis added]

[139] It remains however to consider the effect the agreement made between Professor Wilson and Dr Feaver and Mr Astill on 23 September 1999 that thenceforth the three of them would own the intellectual property in the design they were about to produce. The answer would seem to be simple. Paradoxical it may be, but logic dictates that inasmuch as Professor Wilson may have had authority to decide that work on the system design should be undertaken as a university project, he also had authority to decide that it would cease to be a university project. As I see it the effect of the agreement was that the three men ceased at that point to work on the project on behalf of the university and that the work which they carried out on the project after that point was done on their own account.

[140] Of course that is not to deny that Professor Wilson's decision to take the job away from the university and make it a private project may have been a breach of his contractual duty of good faith to the university, or that the university might be entitled to recover damages for the loss which was thereby suffered. But apart from the work done up to that point, I do not see that the breach of the contractual duty of good faith would entitle the university to an interest in or other relief in respect of the invention. As a matter of contract the university would not be entitled to the invention unless it were created by Professor Wilson and Dr Feaver in the course of work which they were retained to perform. And as I say, I think that they ceased on 23 September 1999 to be retained to perform work of that kind.

Fiduciary duty

[141] I turn therefore to equitable considerations, and in particular to the fiduciary duties which Professor Wilson and Dr Feaver are alleged to have owed to the university, and thus in the end to what I think to be the most significant aspect of the plaintiff's claim to an interest in the invention and the software.

[142] The law is clear that a fiduciary is not allowed to put himself in a position where his interest and duty conflict and a fiduciary who profits outside the scope

of his undertaking can be accountable if the information about the opportunity to make the profit came to him through his fiduciary position. As Deane J put it in *Chan v Zacharia*:⁶²

5 Stated comprehensively in terms of the liability to account, the principle of equity is that a person who is under a fiduciary obligation must account to the person to whom the obligation is owed for any benefit or gain: (i) which has been obtained or received in circumstances where a conflict or significant possibility of conflict existed between his fiduciary duty and his personal interest in the pursuit or possible receipt of such a benefit or gain; or (ii) which was obtained or received by use or by reason of his
10 fiduciary position or of opportunity or knowledge resulting from it. Any such benefit or gain is held by the fiduciary as constructive trustee (see *Keith Henry & Co Pty Ltd v Stuart Walker & Co Pty Ltd* (1958) 100 CLR 342 at 350). That constructive trust arises from the fact that a personal benefit or gain has been so obtained or received and it is immaterial that there was no absence of good faith or damage to the person to whom
15 the fiduciary obligation was owed. In some, perhaps most, cases, the constructive trust will be consequent upon an actual breach of fiduciary duty: eg, an active pursuit of personal interest in disregard of fiduciary duty or a misuse of fiduciary power for personal gain. In other cases, however, there may be no breach of fiduciary duty unless and until there is an actual failure by the fiduciary to account for the relevant benefit or
20 gain: eg, the receipt of an unsolicited personal payment from a third party as a consequence of what was an honest and conscientious performance of a fiduciary duty. The principle governing the liability to account for a benefit or gain as a constructive trustee is applicable to fiduciaries generally including partners and former partners in relation to their dealings with partnership property and the benefits and opportunities
25 associated therewith or arising therefrom (see *Birtchnell v Equity Trustees* (1929) 42 CLR 384 at 395–7, 408–9; *Consul Development Pty Ltd v DPC Estates Pty Ltd* (1975) 132 CLR 373 at 394).

[143] Consequently, if a man occupying a fiduciary position wishes to enter into a transaction which would otherwise amount to a breach of duty, he must, if
30 he is to avoid liability, make a full disclosure to the person to whom the duty is owed of all relevant facts known to the fiduciary, and that person must consent to the fiduciary's proposal.⁶³

[144] I have mentioned already that in the law of contract the extent of an
35 employee's duty of fidelity and loyalty to his employer is dependent upon the facts of the case.⁶⁴ A manual worker, for example, is paid a small amount for the hours that he works — not for the hours in which he is not at work — and the law is jealous of attempts to impose on a manual worker restrictions of which the real effect would be to prevent him using his spare time as he chooses.⁶⁵ On the
40 other hand a chief executive officer of a listed public company may be paid an immense amount to guide the fortunes of the company. In such a case I dare say that the law would not hesitate long in recognising restrictions upon the way in which he or she might use their spare time on affairs other than those of the

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62. (1984) 154 CLR 178 at 199; 53 ALR 417 at 433–4.

63. R P Meagher, J D Heydon, M D Leeming, *Meagher, Gummow & Lehane's, Equity: Doctrines and Remedies*, 4th ed, Butterworths, Sydney, 2000 at [5]–[100].

50 64. *Hivac Ltd v Park Royal Scientific Instruments Ltd* [1946] Ch 169 at 174; [1946] 1 All ER 350 at 354.

65. *Hivac*, above at Ch 174; All ER 354.

company and that it should not hesitate long in conceiving of a substantial devotion of time to extra-curricular activities as a breach of implied contractual obligation.⁶⁶

[145] The same is true of fiduciary duties,⁶⁷ although it is necessary to distinguish between an employee's contractual duty of good faith and loyalty and such if any fiduciary duty as he or she may owe to their employer.⁶⁸ Some employees, particularly senior employees, do owe fiduciary duties to their employers.⁶⁹ But others do not. The scope of an employee's fiduciary duties to the employer depends as much as anything upon the nature and terms of the employment. "The fiduciary relationship, if it is to exist at all, must accommodate itself to the terms of the contract so that it is consistent with "and conforms to" them. The fiduciary relationship cannot be superimposed upon the contract in such a way as to alter the operation which the contract was intended to have according to its true construction".⁷⁰

[146] What then is the position in the case of tenured academics such as Professor Wilson and Dr Feaver? Certainly, the nature of an academic's work is very different to that of a manual worker. As a number of witnesses deposed, the academic's role is the antithesis of a nine to five position. According to the evidence, the work of senior academics like Professor Wilson and Dr Feaver fills most of the waking hours of each day and it is all consuming. Even ordinary teaching and administration duties extend beyond business hours, and the large part of research work is undertaken off campus and out of hours. Yet in those respects the demands imposed upon senior academics are not dissimilar to the sorts of demands which operate in a number of professions. And these days it is difficult to think of many professions in which it would be conceived that a salaried employee is necessarily precluded from undertaking paid work outside ordinary hours for someone other than their employer.

[147] Perhaps it is not all that long ago that professional public servants (in the broad sense that includes academics) were expected to refrain from private money making activities. The theory then was that such persons were appointed to do a job which was expected to be all consuming, and they were paid a salary in effect for the whole of their time. If such an employee were not working he was expected to be at rest, and it was a misuse of his resting time (for which in effect the employer was paying) to work for someone else. It went without saying that they would not work for themselves or for anyone else.

66. cf *Fine Industrial Commodities Ltd v Powling* (1954) 71 RPC 253; *Woods v WM Car Services (Peterborough) Ltd* [1981] ICR 157; *Blyth Chemicals Ltd v Bushnell* (1933) 49 CLR 66 at 81, 82.

67. *Hospital Products Ltd v United States Surgical Corp* (1984) 156 CLR 41 at 97 per Mason J.

68. *Nottingham University v Fishel (QBD)* [2000] ICR 1462 at 1490 per Elias J.

69. See, for example, *Reading v Attorney-General* [1951] AC 507 at 517; [1951] 1 All ER 617 at 621 per Lord Normand; *Industrial Development Consultants Ltd v Cooley* [1972] 1 WLR 443; [1972] 2 All ER 162; *Timber Engineering Co Pty Ltd v Anderson* [1980] 2 NSWLR 488; *Angus & Coote Pty Ltd v Render* (1989) 16 IPR 387; *State Rail Authority of New South Wales v Earthline Constructions Pty Ltd* (unreported, SC(NSW), O'Keefe CJ in Comm D, 14 September 1994, BC9403049); *Colour Control Centre Pty Ltd v Ty* (1996) 39 AILR 85-058 at 4318-20 (Santow J); *EFG Australia Ltd v Kennedy* [1999] NSWSC 922; BC9905694 (Hodgson CJ); *Francis v South Sydney District Rugby League Football Club Ltd* [2002] FCA 1306; BC200206668 at [265]; *Canadian Aero Services Ltd v O'Malley* (1983) 40 DLR 371 at 391; [1974] SCR 592; *Guth v Loft Inc* 23 Del Ch 255; 5 A2d 503 (1939).

70. *Hospital Products Ltd v United States Surgical Corp*, above, at CLR 97; ALR 455; IPR 329-30 per Mason J; *Nottingham University v Fishel (QBD)* [2000] ICR 1462 at 1491-2 per Elias J.

[148] But that is no longer the case. In the last 30 years public service in general and academia in particular have changed considerably. To a greater or lesser extent, both have been politicised and commercialised. The notions which once informed the Northcote-Trevelyan reforms of the civil service have been put
5 aside. A number of the conditions of service which once informed academic service structures have been replaced with "business practices". Permanent and tenured employees have in many cases been replaced with "contractors". And, correspondingly, notions of loyalty and service have tended to diminish. It no
10 longer goes without saying that public servants in general or academics in particular are bound to refrain from extraneous paid activities. These days it takes an express term of contract or condition of service in order to achieve that result. Accordingly, I do not accept that it is enough to make an academic liable to account for information or opportunity acquired while working that the academic may spend most of his time working.⁷¹ Furthermore, in the case of Professor
15 Wilson and Dr Feaver the terms of the university's outside work policy provided that they were free to work outside university hours without consent, provided the work involved did not interfere with their duties to the university.

[149] On the other hand, and subject to contract, it remains unquestionable that
20 professional employees owe to their employers fiduciary obligations not to profit from their position at the expense of the employer and to avoid conflicts of interest and duty.⁷² Accordingly, even if an employee is generally speaking free to work for someone else, he or she must avoid work which could conflict with the interests of the employer that the employee is paid to serve.⁷³
25 Correspondingly, in the absence of full and frank disclosure and consent, a professional employee remains bound to account to the employer for gains derived as a result of the employee's fiduciary position and for opportunities of which the employee may learn in the course of employment; lest the employee otherwise be swayed by considerations of personal interest. Nothing which has
30 occurred in the last 30 years has altered any of that.

Breach of fiduciary duty

[150] The question is whether there was a breach of those fiduciary obligations
35 in this case? I have come to the conclusion that there was. For the reasons which follow:

- (a) I consider that the opportunity to design the WTO online system was presented to Professor Wilson and Dr Feaver in their capacities of head of the School of Applied Economics and head of CIBRE.
- 40 (b) I find that the opportunity to design the system was available to the university, in the sense that WTO would have been pleased to have had the system designed in the name of the university.
- (c) I consider that Professor Wilson and Dr Feaver began work upon the system design in their capacities as employees of the university and for
45 the benefit of the university and that they continued in that vein until 23 September 1999 when they resolved with Mr Astill thenceforth to

71. *Nottingham University v Fishel*, *ibid* at 1494.

72. *New Zealand Netherlands Society "Oranje" Inc v Kuys* [1973] 1 WLR 1126 at 1129; [1973] 2 All ER 1222 at 1225; *Consul Developments Pty Ltd v DPC Estates Pty Ltd* (1975) 132 CLR 373 at 377; 5 ALR 231 at 233.

73. *Warman International Ltd v Dwyer* (1995) 182 CLR 544 at 557-8; 128 ALR 201 at 208-9.

work upon the system in their private capacities and to own the intellectual property rights in the invention in the proportions which they agreed.

- (d) I consider that the effect of the decision of 23 September 1999 was to take away from the university and transfer to the three individuals the opportunity of continuing with the design of the system, in order thereby to exploit the opportunity for their own benefit to the exclusion of the university.
- (e) I think to be irrelevant the question of whether they made that change in knowing disregard of the university's interests or in honest ignorance of their obligations.⁷⁴ To a large extent, so too is the question of whether the university would have chosen for them to continue with the work on behalf of the university if apprised of all the facts.⁷⁵ But in point of fact, it is plain that the university did have the capacity to do the work of designing the system and I think to be more likely than not that the university would have wished Professor Wilson and Dr Feaver to continue with the work on behalf of the university if the facts had been disclosed.
- (f) I do not accept that the so called "paradigm shift" resulted in the project coming to an end or in what followed the shift being so unrelated to what went before as not to be affected by the breach of duty.
- (g) There was no full and true disclosure such as might have relieved Professor Wilson and Dr Feaver from the consequences of acting as they did.

I shall deal with these matters in turn.

(a) Presentation of opportunity

[151] It cannot seriously be disputed that the opportunity to design the WTO online system was presented to Professor Wilson and Dr Feaver because of their positions as head of the School of Applied Economics and head of CIBRE. Certainly, Buccheri had a personal association with Professor Wilson. But he and Hutchins brought the opportunity to Professor Wilson and Dr Feaver at the university; Buccheri came to them because of their association with the university and because he wanted the project to be seen by potential investors as associated with the university; and as appears from the contents of Professor Wilson's letter of 5 August 1999, Professor Wilson, and thus too presumably Dr Feaver, were of the view that the opportunity had been offered to the university. Dr Feaver conceded that he saw the letter at about the time it was written.

(b) Opportunity available to the university

[152] I have already referred to the defendants' contention that even if the opportunity were presented to Professor Wilson and Dr Feaver because of their positions as head of the School of Applied Economics and Director of CIBRE, it was offered to them personally and thus was never available to the university. In point of principle the argument may be sound. A fiduciary is not necessarily precluded from taking advantage of every opportunity of which he or she learns as a consequence of their fiduciary position. The rule which requires that a

74. *Chan v Zaccharia* (1984) 154 CLR 178 at 199; 53 ALR 417 at 433-4.

75. *Warman International Ltd v Dwyer*, above, at CLR 562; ALR 212.

fiduciary avoid conflicts of interest and duty does not apply in cases of possible conflict unless there is a "real and sensible, rather than theoretical and abstract" possibility of conflict. As the Privy Council put it in *Queensland Mines Ltd v Hudson*:⁷⁶

5 ... the facts have to be examined to determine whether (the fiduciary) acted in a way in which "there was a real sensible possibility of conflict" between his interest and the interest of (the principal).

10 [153] But for the reasons already given, the argument fails upon the facts. It is inherently improbable that WTO would have wished the university to be any less associated with the system architecture than with the provision of the online education component of the project, and I do not accept the evidence of Professor Wilson that it did. In my opinion the opportunity was available to the university.

15 (c) *University project*

15 [154] It is not disputed that Professor Wilson and Dr Feaver began work on the system design very early in September 1999, and that they had produced a first drawing of the design and shown it to Buccheri by the time of their meeting with Mr Astill on 9 or 10 September 1999, or that by the time of that meeting Mr Astill
20 knew those to be the facts. It is also not disputed that Professor Wilson and Dr Feaver began and carried out that work in response to Buccheri's invitation, and for the reasons already expressed I find that the invitation was issued to them in their capacities as officers of the university. Notwithstanding Professor Wilson's and Dr Feaver's evidence to the contrary, it appears to me to be plain
25 and I find that WTO in general and Buccheri in particular wanted the design to be carried out in the name of the university, so that it attracted the cachet of the university's reputation, and that WTO believed that the work which was being done by Professor Wilson and Dr Feaver on the design was done on behalf of the university. I perceive it also to be likely and I find that until 23 September 1999
30 Professor Wilson and Dr Feaver conceived themselves to be engaged on a university project. For the reasons already given, I reject their evidence that Professor Wilson proclaimed from the outset that they should work upon the project in a private capacity. It follows in my opinion that until they resolved with Mr Astill on 23 September 1999 to continue with the work on a personal basis,
35 the project was a university project from which the university stood to benefit.

(d) *Taking of opportunity*

40 [155] The idea of taking over the project, in the sense of completing the work in a personal capacity, appears to have been considered for the first time at the meeting between Mr Astill and Professor Wilson on or about 9 or 10 September 1999. So much is recorded in cryptic form in Professor Wilson's diary entry for that day.⁷⁷ The matter was then discussed again at the meeting between Mr Astill and Professor Wilson and Dr Feaver on 15 September 1999, which is recorded in relatively greater detail in Mr Astill's notes of that meeting.⁷⁸ Upon the

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76. (1978) 18 ALR 1 at 4; 3 ACLR 176 at 177; *Consul Developments Pty Ltd v DPC Estates Pty Ltd* (1975) 132 CLR 373 at 399; 5 ALR 231 at 253 per Gibbs J; *Chan v Zaccharia* (1984) 154 CLR 178 at 205; 53 ALR 417 at 438 per Deane J; R P Austin, "Fiduciary Accountability for Business Opportunities" in P Finn (ed) *Equity and Commercial Relations*, Law Book Co, Sydney, 1987, p 146.

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77. Exhibit P 31: MH26.

78. Exhibit P 114: CAA6.

evidence, however, it was not until all three men executed the memorandum of understanding on 23 September 1999 that it was resolved that Professor Wilson and Dr Feaver would work upon the project in a private capacity and that the intellectual property in what was to be produced would be held in the proportions noted in the memorandum.

[156] The defendants argued that it was an untenable proposition that the determination to proceed in a private capacity amounted in any way to the taking over or taking from the university of any project as such then in existence. They submitted that the agreement to proceed in a private capacity occurred so shortly after Professor Wilson and Dr Feaver began work on the project that it was improbable to the point of being fanciful to think that they had ever intended the project be conducted in the name of the university. In the defendants' contention it was overwhelmingly probable that Professor Wilson and Dr Feaver began work on 31 August 1999 with the intention of acting in a personal capacity, as they swore was the case, and that they remained of that intention throughout. It followed in the defendants' submission that there had been no taking over of any project, but at most the taking of an opportunity, and since the only pleaded case was the taking over of a project — not an opportunity — the plaintiff's case as pleaded must fail. Further, it was said, the defendants had made plain from the outset of the trial that the only case which they had come prepared to meet was the pleaded case, and it was now too late for the plaintiff to amend its pleadings to allege a loss of opportunity.

[157] In my opinion that analysis breaks down at a number of levels. In the first place I do not accept that there was any agreement reached between the three of Professor Wilson and Dr Feaver and Mr Astill until the signing of the memorandum of understanding on 23 September 1999. Although they discussed the possibility as early as 9 or 10 September 1999 and again on 15 September 1999, as far as I can see there was no change from the previous course of acting for the university until the memorandum was signed.

[158] In the second place, and even if agreement were reached as early as 9 or 10 September 1999, I do not accept that the fact of the agreement would render improbable the possibility that Professor Wilson and Dr Feaver started out with the intention of acting for the university. As I have pointed out already, that is what WTO appears to have wanted, and that is what Professor Wilson wrote on 5 August 1999 that they were prepared to do. What is more probable is that it took the arrival of Mr Astill and his suggestions as to the way in which the intellectual property should be treated to turn the heads of Professor Wilson and Dr Feaver from the course on which they had started. For the reasons already given, I reject Professor Wilson's and Dr Feaver's evidence that they began with the intention of acting privately. I do not accept that Buccheri requested them to act in a private capacity and I do not accept that they had fears about exposing the university to liability. I find that there was an extant project by the time they reached agreement with Mr Astill.

[159] In the third place, and even if there were no project in existence at the time of the agreement, I do not consider that the pleaded case is limited to the taking over of an extant project. The argument pays too little attention to the detail of the pleading.

[160] The allegations made in paras 56G (b) and (d) of the consolidated third amended statement of claim (henceforth, I shall call it the statement of claim) are

that commencing in or about September 1999 and continuing thereafter, Professor Wilson, Dr Feaver and Mr Astill:

(b) caused the E-Commerce Venture and the E-Commerce Venture Assets to be taken over by IP3 Systems Pty Ltd and IP3 Systems; and

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...

(d) caused the E-Commerce Venture and later the E-Commerce Venture Assets to be transferred to themselves and later to IP3 Systems and thereby deprived the University of the benefit of the same and of the opportunity to develop and promote the E-Commerce Venture Assets for the its own use and benefit.

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[161] The "E-Commerce Venture" is defined in para 56B of the statement of claim as a project, activity or venture variously described as "E-Commerce Transaction Platforms"; "E-Commerce Research Development Project" and "E-Commerce Facilitation" in, among other places, the letter of 5 August 1999 from Professor Wilson to Mr Huthinson and the PowerPoint presentations prepared for New Tel and the Billets. The particulars which are given of the alleged taking over of the E-Commerce Venture and E-Commerce Assets and the alleged transfer of the opportunity to develop and promote the E-Commerce Venture Assets include:

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(c) the conduct of Wilson, Feaver and Astill in negotiating with World Trade On-line to develop and produce an electronic trading exchange and in deciding that the intellectual property rights of the University therein should vest in them, and in later assigning those rights to IP3 Systems; and

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(d) the conduct of Wilson, Feaver and Astill and of IP3 Systems in arranging for the computer software for the invention to be designed and developed by IP3 Systems either by itself or in conjunction with PricewaterhouseCoopers, rather than arranging for the same to be designed, developed and owned by the University.

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[162] In aggregate these allegations amount to an averment that Professor Wilson and Dr Feaver were guilty of:

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taking over [the] project, activity or venture variously described as "E-Commerce Transaction Platforms"; "E-Commerce Research Development Project" and "E-Commerce Facilitation" (the E-Commerce Venture) and of "caus(ing) the E-Commerce Venture and later the E-Commerce Venture Assets to be transferred to themselves and later to IP3 Systems" and thereby "depriving the University of the benefit of the same and of the opportunity to develop and promote the E-Commerce Venture Assets for the its own use and benefit", by "*negotiating with World Trade On-line to develop and produce an electronic trading exchange and in deciding that the intellectual property rights of the University therein should vest in them, and in later assigning those rights to IP3 Systems*" [and] "*arranging for the computer software for the invention to be designed and developed by IP3 Systems either by itself or in conjunction with PricewaterhouseCoopers*".

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[163] In my opinion that averment corresponds substantially to what has been shown to have occurred, and that is so regardless of whether Professor Wilson and Dr Feaver started work with the intention of acting on behalf of the university or with the intention of acting in a private capacity.

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[164] Finally on the topic of taking over the opportunity, I should say that the plaintiff contended that despite the agreement of 23 September 1999 I ought find that the project remained a university project until at least January 2000 (when all reference to the university was finally deleted from the presentations and other documents used by Professor Wilson and Dr Feaver in the promotion of the

invention), or perhaps even until March 2000 (when the provisional patent application was filed). The basis of the argument was that in as much as Professor Wilson continued during that period to promote the invention under the banners of the university and CIBRE, as for example in the solicitation letters to New Tel and GE and in the presentations to New Tel and the Billets, and in briefing documents prepared for prospective investors generally, it should be concluded that Professor Wilson and Dr Feaver and perhaps even Mr Astill conceived themselves still to be working upon a university project, and that it was only when the provisional patent application was filed in the name of IP3 Systems that the decision was finally made to exclude the university from the project.

[165] I do not accept that argument. Plainly enough Professor Wilson and Dr Feaver, and I think also Mr Astill, were keen to continue to use the banners of CIBRE and the university, and they did so until January 2000 because they perceived that the apparent involvement of the university would provide them with a degree of credibility and the project with the cachet of the university's reputation. It is also probable that until about December 1999 WTO believed that the project was a university project, as I think it had stipulated that it should be, and it would have caused difficulties with WTO if the appearance of the university's continued involvement were not maintained. But it is not suggested and I do not see how it could be thought that the memorandum of 23 September 1999 was a sham or that it did not give effect to an agreement made on or about that day that thenceforth Professor Wilson and Dr Feaver would continue with the system design work in a private capacity. Those being the facts, I conclude that such use as Professor Wilson and Dr Feaver and Mr Astill made of the name and reputation of the university after that point was to advance their own interests and not with a view to sharing with the university the profit to be derived from the outcome.

[166] I add, moreover, that it was not until part way through final addresses that the plaintiff first put forward the argument that the taking over of the project did not occur until January 2000. Until then the plaintiff's position had been that the taking over occurred on 23 September 1999 or perhaps even as early as 15 September 1999 at the meeting recorded in Mr Astill's notes of that date. The change of tack came about only when the plaintiff perceived that its case against Mr Astill might be strengthened if the time of taking were found to be later rather than sooner; the unspoken premise being that the later the time of taking, the greater the degree of knowledge that Mr Astill might be thought to have acquired by the time of taking. Ingenious though the manoeuvre may have seemed to its authors to be, it appears to me to suffer from all the weakness that inevitably afflicts any contention contrived to overcome one problem by the means of ignoring another.

[167] My conclusion is that the substantive effect of the resolution of 23 September 1999 was to exclude the university from any further involvement in the development of the project and thus from the intellectual property in what was to be produced. Whereas before the execution of the memorandum Professor Wilson and Dr Feaver and I think too Mr Astill would have produced a design to be put forward as a university design, and from which the university stood to benefit if the design were acceptable and developed, following the execution of the memorandum the design was to belong to the individuals or IP3 Systems in effect on their behalf and the university was to have no interest.

(e) The capacity of the university to do the work

[168] I take to be self evident that the university had the capacity to do the work of designing the system. Professor Wilson confidently predicted in his letter of 5 August 1999 that the university would be well placed to do so, Professor Wilson and Dr Feaver actually did so, with some help from Mr Astill, and they did it very quickly. If they had continued to act on behalf of the university instead of resolving on 23 September 1999 to act in a personal capacity, the university would have been the designer of the system. As I say, I think it is probable that, if higher authority had known of the project, it would have approved the project as one to be undertaken by Professor Wilson and Dr Feaver on behalf of the university. I am strengthened in that view by the contents of Professor Wilson's letter of 5 August 1999 and by the evidence given by Professor Tomasic, Professor Wilson's immediate superior, as to the trust he reposed in Professor Wilson's judgment and the latitude which he afforded to Professor Wilson in deciding on the work which would be done within the department.

(f) The paradigm shift

[169] I turn to the defendants' "paradigm shift" contention. It was that whereas the scheme envisaged by WTO and as represented in the 26 September 1999 schema was based upon an electronic trade exchange conducted by a fee charging intermediary, WTO, the schema as finally designed and made the subject of the patent application was of a disintermediated variety providing for transactions directly between traders without need of any intermediary. Thus, even if the opportunity to design the WTO system were presented to Professor Wilson and Dr Feaver as employees of the university, and they began work on the system on behalf of the university, there was a "paradigm shift" in the course of the design process which resulted in the system as designed being so significantly different to the WTO system as not to be attributable to the WTO opportunity.

[170] I reject the "paradigm shift" contention, for a number of reasons. To begin with, it looks to me suspiciously more like a lately conceived argument than a reflection of Professor Wilson's and Dr Feaver's state of mind at the time of system development. As already noted, the trial was preceded by substantial interlocutory proceedings for Anton Pillar orders, in which the defendants filed lengthy affidavits in opposition to the applications. Despite the inclusion in those affidavits of detailed recitations of facts and elaborate arguments, there was no sign of the "paradigm shift".

[171] In the second place, the inspiration for the "shift" was said to derive from the application of "systems theory" to the economics of international trade, as if that were sufficient in itself to make the December schema profoundly different to the October schema. The contention was that whereas the October schema proceeded upon the premise of the classical conception of a market place, the December schema was made to accord to the empirical conclusion that the bulk of international and other trade is conducted upon the basis of established relationships between particular firms. Professor Wilson so explained the "shift" in his evidence in chief, as follows:

Now, I'll try my best to get across the essence of the invention without, you know, to try and make it as easy to understand as possible. If you have a look at the way economic activity is conducted in the real world, particularly business to business intermediate product purchases and sales. Companies exist in what are known as supply chain networks. In other words, I procure some inputs from a company over here, I add value to those inputs to create another product that I then on-sell to another company,

and in the world of economic activity around about 70 per cent of all economic activity is of this nature. In other words it's procuring, adding value, and then on-selling to another user. Consumers come at the end of a process which often involves multiple value adding steps and many separate entities, many different companies.⁷⁹

Now, in some cases the companies are large and they combine together several of the production processes under one corporate banner, in other cases there's lots of smaller companies, you know, producing component parts and then on-selling them to other firms and so on. Now, that's what the real world economic activity is all about.

The text book version of the economy is where the products are actually bought and sold in some physical market where somebody turns up and on a particular day says I've got these products for sale and there's somebody there representing the buyer side and there's an interaction between them and we get the so-called market outcome — a quantity and a price emerge from that. But that's not the way the real world operates, that's a very rare example of market activity. Those sorts of markets do exist and the fact that we can name most of them shows us how rare they are. For example, the stock market or a cattle market or a country, you know, a vegetable market or something like that, but the great majority of so-called market activity occurs as emergent phenomena in supply chain networks.

Now, what does that mean? It means that if I am in a supply chain procuring inputs, adding value and on-selling, I don't do that in a vacuum. Yes, I look to my traditional supply chain sources, I procure from you today because I procured from you yesterday. There are lots of transaction costs that are minimised by me going back to the same supplier, but at the same time I keep my eye on the rest of the world so that if I can find an alternative source of supply, that it's a slightly lower price or under better conditions, more reliability, greater quality, whatever, I will spread my risk and diversify and start and add those people to my supply chain.

Now, that's what is, if you like, the paradigm shift and the very different approach that we took to building an electronic economy, as compared to what was available back in 1999 when we started to look at this whole area of electronic marketplaces, whereas those marketplaces at that time were trying to corral buyers and sellers into these physical electronic marketplaces and then impose on them transaction costs, we saw this as fundamentally flawed and would never succeed because that's not the way real world business is conducted.

Rather, we took as our starting point two fundamental premises; first of all that in the real world you don't want to change behaviour, you want to electrify existing supply chain behaviour, you just want to make it easier for them to do it by stripping out all the transaction costs, human errors and process errors and do it in a way that delivers a value proposition to all those firms in the network. But in addition, and this is the second major compelling contribution that we believe from our invention, is that you open up all firms by electrifying their connectivity. You open up firms to whole new market opportunities because under our invention once you have the Electron software your catalogues can then go out into the electronic economy and your products can be picked up or identified by anybody else that either uses the Ether or who has another Electron.

Now, the point of this exercise is to emphasise that buying is easy, in business it's easy to go and find a source of supply and procure an input, that's the easy part of business, the hard part is the sell, it's getting your products and your catalogues out there and getting known. So we saw this as a real major contribution of our invention that we were inverting and focusing upon the sell side and empowering sellers rather than focusing on the buy side, and, if you like, trying to screw sellers by getting the lowest possible price. I hope that answers your question.

[172] In point of fact, however, close comparison of the October 1999 and December 1999 schemata shows that although the so-called "shift" was a change

79. T 1099.

from the original model, it was a change in the detail of the system design and not a fundamental alteration in direction at all. The essence of the WTO system, as it had been developed by October 1999, was a system of matching buyer and seller preferences across a range of predetermined parameters according to an algorithm based upon revealed preference theory with automatic refreshment of data according to transaction details. The means chosen physically to implement the system was an online dot.com intermediary trade exchange through which all transactions were to be routed and at which all data was to be stored. The essence of the system depicted in the December 1999 schema (and later made the subject of the patent applications) is identical in the respects that it matches buyer and seller preferences across the range of predetermined parameters according to an algorithm based upon revealed preference theory and different only in that the means chosen physically to implement the system is online business to business internet access, with some data stored at a central site, as opposed to online intermediated access with all data stored at a central site. That the difference between them is one of detail — not paradigmatic — is demonstrated by the fact that business to business connectivity is not once mentioned in any of the claims in the complete patent specification, even though some reference is made to it elsewhere in the specification.

[173] So to say is not to deny that the software written to give effect to the system as finally designed is different to and more complex than the software that would have been required to give effect to the original system. Indeed it is distinctly different and it is distinctly more complex. Nor is it to suggest that the system as originally conceived foresaw the possibility of back-end integration with electronic logistics systems such as J D Edwards. It did not. But the system is not the software. It is the conception for which software is designed to give effect, and in systemic terms the difference between intermediated dot.com access and peer to peer connectivity is only one of detail. As Mr Brown⁸⁰ put it in evidence:

What a lot of people were doing with internet portals and similar projects was they were replacing the brokers with themselves and with the software and in terms of these words "intermediation" and "dis-intermediation", in fact, I would describe them as marketing hype because what you're doing is you're taking out — you take out the brokers and you replace them with yourself, effectively you then become the broker. And for this reason a lot of the models failed because people couldn't add value, the brokers added or they got too greedy and they wanted to come and — they wanted to take the cut instead of the brokers, so when you say you take out the middle man, when you're putting another middle man in, you're not taking out the middle man, you're just swapping the middle man.

Q — What is the middle man that the new schema of February 2000 inserted in place of the old one of October '99? A — They put in place the software to be the middle man. Sorry, the new schema of what?

Q — February of 2000, is the new schema, it is said? A — Whoever runs software becomes the new middle man.⁸¹

...
I didn't see it as an inspirational paradigm singular shift that changed the entire focus of those flow chart documents, I saw that they went — that large portions of concepts were taken through and in my report I grouped the concepts in a number of areas, I don't regard that one thing as being all of a sudden this changes and it's important. And in

80. An expert computer scientist called by the plaintiff.

81. T 855.

fact, that one thing is not a single claim in the patent documents, (even though) there are a large number of claims in the documents.

[174] In the third place, and however one might characterise or quantify the magnitude of the change represented by the so-called "paradigm shift", the system as designed evolved directly out of the WTO system and is largely constituted of elements taken from the WTO system. As Mr Brown explained in cross examination:

MR COLLINSON: So is it your evidence to His Honour that you see no difference in principle between the flow charts as prepared in September 1999 and those prepared in January to March 2000? A — *It's my evidence that the flow charts from 1999 show concepts that were carried over into the invention and the flow charts show a continuum of development and that those concepts are carried through those flow charts and they are the core concepts of the invention* and that there was no paradigm shift in the middle in terms of those concepts. The concepts I'm talking about are identified in my report. [Emphasis added]

HIS HONOUR: Even with the removal of the broker, no shift in paradigm? A — No. The thing is that the different views on the internet, by that time this was not a big deal, that, you know, maybe ten years ago the concept would be but all these things were going on, people were building software and websites and the difference as to whether someone is running that website or with an external party is not a paradigm shift, it's just merely a translation of responsibility.

Consequently, the opportunity to design the system as designed is in my opinion directly referable to the opportunity presented by WTO to Professor Wilson and Dr Feaver and therefore I consider that it is a profit or advantage derived from that opportunity. Professor Wilson and Dr Feaver and Mr Astill may have contributed significantly to the development by means of their skill and effort and financial resources, but that is something which is to be accommodated in the terms of final relief; by just allowances for their contributions. It does not negate the conclusion that the benefit of the system as designed is derived from the WTO opportunity.

(g) Disclosure

[175] It has not been suggested that Professor Wilson or Dr Feaver made full and true disclosure of the opportunity to the university and the fact is that they did not. Professor Wilson did not give any but the sketchiest details of the project to his immediate superior, Professor Tomasic, and what he did say was calculated to create the impression that Professor Wilson was working on a project which would be of real benefit to the university. Neither Professor Wilson nor Dr Feaver ever said or wrote to anyone in authority that an opportunity existed for the university to design the system, or sought permission to undertake the project as a private venture. There was not full and true disclosure and the university did not assent.

Consequences

[176] What then are the consequences of Professor Wilson's and Dr Feaver's breach of fiduciary duty? If events had stopped upon the lodging of the provisional patent application, and if Mr Astill were not involved, I consider that Professor Wilson and Dr Feaver would hold the invention and hence the provisional patent application upon constructive trust for the university. That would not be the only possible outcome in those circumstances but, as I see it, it would be the most appropriate manner of giving effect to the rule that a

fiduciary must account for benefits which have flowed to him in breach of his duty.⁸² As matters stand, however, it is necessary to allow for significant differences made by Mr Astill's involvement and by subsequent developments. As will be seen, I regard the effect of the subsequent developments as making it inappropriate that a constructive trust be imposed upon the invention.

Mr Astill's involvement

(i) *Mr Astill's contribution*

[177] A volume of evidence was devoted to the extent to which each of Professor Wilson, Dr Feaver and Mr Astill contributed to the invention. On the plaintiff's side the evidence was comprised of an analysis undertaken by the computer consultant, Mr Brown, leading him to conclude that "the concepts incorporated in the patent documents were developed, predominantly by Dr Donald Feaver, under the banner of Victoria University's research entity, CIBRE." On the defendants' side the evidence comprised the fact that the memorandum of 23 September 1999 split the intellectual property rights in the proportions of 40:40:20; expressions of opinion by Professor Wilson and Dr Feaver that the contributions were more or less equal; and the fact that in December 1999 upon the incorporation of IP3 Systems, shares were issued in the proportions of 30% to each of Professor Wilson and Dr Feaver and 40% to Mr Astill with the intent, it was said, that if an outside investor were found, some shares would be transferred out of Mr Astill's holding to the investor.

[178] The evidence on both sides leaves something to be desired. Although Mr Brown's analysis had about it the appearance of an exercise scientifically based upon time spent and the number of steps undertaken, in fact there is no necessary correspondence between those things and the degree of achievement attained. Experience suggests that in any field of intellectual endeavour a moment's insight may often be worth many times more than hours of painstaking labour. Equally, I am inclined to doubt the unsubstantiated ex post facto assertions of Professor Wilson and Dr Feaver and Mr Astill about the extent to which each man contributed. They are likely to be informed (at least sub-consciously) as much by the results sought to be achieved in the litigation as by the facts of the matter. I am more disposed to think that when three men work as closely together as did these three upon the project, and each is sufficiently appreciative of the others' contributions spontaneously to acknowledge that they should be regarded as weighted in the proportions of 40:40:20 (as they did in the memorandum of 23 September 1999), their assessment is more likely to be accurate than it is to be distorted by contrivance or other extraneous considerations. In any event, I see no sufficient reason to reject the assessment in the memorandum in favour of anything else.

[179] I do not overlook the proportions in which the shares in IP3 Systems were issued, nor the possibility that by the time of issue Mr Astill may have put in so much more work than was originally contemplated as to be thought to have made an equal contribution. But I think that less than likely. There is no necessary correlation between the proportions in which shares were allotted and the contribution of each man to the intellectual property. Nor is it to be supposed that Mr Astill was to transfer only or even as much as 10% out of his holding to an

50 ⁸². *Hospital Products Ltd v United States Surgical Corp*, above, at CLR 108-10; ALR 462-4; IPR 338-9.

incoming investor. The evidence falls short of persuading me that it was the intention that all three men should finish with equal shareholdings and, even if it were, that the equality of shareholdings was intended to represent an equality of contribution to the intellectual property as opposed to other contributions to the enterprise.

Mr Astill accountable as a constructive trustee?

[180] The plaintiff argued that even if Mr Astill were otherwise entitled to a 20% share in the invention, he should be found to have been a knowing participant in Professor Wilson's and Dr Feaver's breaches of fiduciary duty, or a knowing recipient of trust property, and that he should therefore be held to hold his 20% interest as constructive trustee for the plaintiff. I do not think that is correct.

(i) Knowing involvement in breach of duty

[181] A stranger to a trust (in which for present purposes may be included fiduciary duties falling short of trusteeship) does not become a constructive trustee merely because he becomes involved in the breach of trust. He is not liable unless he assists with knowledge in a dishonest and fraudulent design on the part of the fiduciary. And knowledge for this purpose means actual knowledge or calculated abstention from inquiry — constructive knowledge is not enough — of which the burden of proof of lies upon the plaintiff.⁸³ I do not consider that the plaintiff has discharged that burden.

[182] The starting point in the plaintiff's argument is that Mr Astill was involved in the WTO proposal from early September 1999. It follows it is said that he well understood the commercial significance of the opportunity presented by the WTO proposal; that he knew that WTO had in the first place engaged the university's services to develop an online brokerage trading system; and therefore that he was at all times well aware that Professor Wilson and Dr Feaver obtained their information about the online brokerage system and its commercial possibilities by reason of their positions as the university's employees. It is also said that I should reject as contrived the distinction which Mr Astill sought to draw in evidence between what he said "was official University based work" and the trading exchange initiative which he deposed "... was very much outside the scope of our role ...", and further that Mr Astill was astute to realise that the "online brokerage system" was intellectual property that he and Professor Wilson and Dr Feaver should retain for themselves to the exclusion of the university.

[183] Some of what the plaintiff says is uncontentious. It is plain that Mr Astill was involved from near to the beginning of the project; that he perceived that the intellectual property in the invention could prove to be of value; that he may have known that the university was at the outset engaged upon the process of attempting to produce a system design; and that he knew that the result of his agreement of 23 September 1999 with Professor Wilson and Dr Feaver was that the three men would hold the invention for themselves, so that the university's interests would be confined to the online education component of the WTO proposal. But I do not find in any of that sufficient to establish that Mr Astill knew or wilfully closed his eyes to the fact that Professor Wilson and Dr Feaver were

83. *Consul Development Pty Ltd v DIPC Estates Ltd* (1975) 132 CLR 373 at 385; 5 ALR 231 at 240-1; *Kooratang v ANZ Banking Group* [1998] 3 VR 16 at 89-90; *Macquarie Bank Ltd v Sixty-Fourth Throne Pty Ltd* [1998] 3 VR 133 at 157.

acting in breach of their fiduciary duties to the university. Mr Astill's evidence was that he asked Professor Wilson whether it was in order for Professor Wilson and Dr Feaver to work on the project in a private capacity and that Professor Wilson told him that it was. I do not see why Mr Astill should have doubted that assurance; even if it were wrong. Professor Wilson was the head of the school with authority to speak for the school. He was a senior academic and had been a senior academic when Mr Astill had been an undergraduate years before. Doubtless, Mr Astill looked up to Professor Wilson as a figure of authority and respectability. Mr Astill was not a lawyer, even if he were an accomplished businessman. And even if he had been a lawyer, I do not think that there would have been sufficient in the facts of which he knew to conclude that Professor Wilson was deliberately or mistakenly wrong.

[184] The plaintiff next referred to the fact that the defendants had sought legal advice from Freehills in February 2000, after Professor Wilson's conversation with Professor Clark. In the plaintiff's submission, that bespoke a perception by Mr Astill that the university had or may have had a claim upon the intellectual property, and thus it was contended that I should reject the evidence which he gave that he accepted Professor Wilson's and Dr Feaver's assurance as to the propriety of their acting in a private capacity.

[185] I reject that contention. I see no inconsistency between the probability that in September 1999 Mr Astill honestly and reasonably accepted Professor Wilson's assurance about the propriety of acting privately, and the fact that some months later, at the point at which serious commercialisation of the invention was about to begin and therefore real money was about to be spent, Mr Astill and the other two men should take legal advice as to whether the university could assert any claim in respect of the invention.

[186] The plaintiff next laid emphasis on the fact that Freehill's advice was not in writing or at least that the defendants were unable to produce any written advice, and the plaintiff in effect submitted that I should find that such advice as was given was unfavourable to the defendants. I am not disposed to make that finding. Professor Wilson and Mr Astill swore that they received favourable oral advice, and whatever doubts I may have about some other aspects of their evidence, the nature of the advice is not the sort of thing about which they could be mistaken. I am not persuaded that they would give deliberately false evidence about such a matter. The probability that their evidence on the point is accurate is also supported by the fact that PwC agreed to go ahead with the joint development of the software after it was apprised of the advice. I do not think it likely that an organisation like PwC would risk a substantial investment if there were doubts about the ownership of the intellectual property. It is true, as the plaintiff contended, that the solicitor who gave the advice was available to be called and was not called. It may be therefore that one can say that anything he might have said upon the subject would not have assisted the defendants.⁸⁴ But having regard to the other matters to which I have referred, I regard that as falling a long way short of establishing that the advice which was given was unfavourable.

50 ⁸⁴. *Jones v Dunkell* (1959) 101 CLR 298; *JPQS Pty Ltd v Cosmarnan Constructions Pty Ltd* [2003] NSWCA 66; BC200303538 at [24].

[187] Finally, the plaintiff argued that the fact that the project was not disclosed to the university bespoke a belief on the part of Mr Astill that the university may have had a claim. I think that proposition to be deficient in a number of respects:

- To begin with, while it is true that Professor Wilson and Dr Feaver were sufficiently concerned about the possibility of a claim to deem it prudent that they not disclose the details of the project to the university, that says very little about Mr Astill. There is nothing to show that Mr Astill knew what Professor Wilson and Dr Feaver had or had not disclosed to the university.
- In the second place, Mr Astill was not an employee of the university, and I was not told of any other reason why he should be expected to have been reporting anything to the university.
- In the third place, the argument overlooks the obvious possibility that one may well have an honest and reasonable belief in the righteousness of one's own position and yet refrain from broadcasting facts of which others' knowledge might trigger a dispute.
- In any event, the argument overlooks that knowing involvement means more than mere knowledge of facts which may make conduct wrongful.

[188] As Lord Hoffman observed in *Twinsectra Ltd v Yardley*,⁸⁵ if a plaintiff is to succeed in a claim of knowing involvement it is necessary for the plaintiff to show that the defendant had a dishonest state of mind. It is not enough to show that a defendant's state of mind was wrong or even that it was misguided. He or she must be shown to have been conscious that what was done transgressed ordinary standards of honest behaviour. Accordingly, if a defendant honestly believes in facts which to the mind of right thinking people would mean that the transaction was not dishonest, then the defendant is not liable.

[189] That is not to say that one cannot be dishonest without a full appreciation of the legal analysis of a transaction. As Lord Hoffman said, a defendant may dishonestly assist in the commission of a breach of trust without any idea of what a trust means. The necessary dishonest state of mind may be found to exist simply in the fact that the defendant knew perfectly well that he was helping to put away money to which the recipient was not entitled. But upon the facts established by the evidence, that was not this case.

(ii) Knowing receipt of trust property

[190] The argument that Mr Astill was a knowing recipient of trust property was not pleaded and it was not advanced until the latter part of the plaintiff's closing address, during the last day of the trial. When, however, I remarked to counsel that the argument went beyond the pleadings, and had not been mentioned before, I was told by counsel for the plaintiff that it was simply another way of putting the case on the basis of the facts which had been established by the evidence. When I questioned the validity of that proposition, I was told by counsel for the plaintiff that the plaintiff would make application to amend its pleadings; if I thought that to be necessary. When I observed that it was for the plaintiff to make up its own mind about its pleadings and said that it was my intention to judge the issues according to the pleadings as they stood, I was told by counsel for the plaintiff that justice required that I should grant such leave as may be necessary and that the decision of the Full Court of the Federal Court of Australia in *Nescor Industries Group Pty Ltd v Miba Pty Ltd*⁸⁶ was authority for that proposition.

85. [2002] 2 AC 164 at 170–1; [2002] 2 All ER 377 at 383.

86. (1997) 150 ALR 633.

[191] I do not accept that it is permissible for the plaintiff to raise such an argument for the first time in the course of final address. Nor do I think that *Nescor Industries* constitutes any sort of authority that it may. *Nescor* appears to me to be no more than an application to particular facts of the proposition essayed by the High Court in *Banque Commerciale SA (En Liquidation) v Akhil Holdings Ltd*;⁸⁷ that a case may be decided on the basis of an issue which has not been pleaded if, notwithstanding the pleadings, the issue has been litigated at trial. In this case that proposition has no relevance. I announced at the outset of the trial and I repeated on several occasions throughout the trial that I would not permit issues to be raised unless they were in the pleadings.

[192] I should also say, however, that even if it were permissible for the plaintiff to rely upon the argument, I would not hesitate to reject it. Granted it may be enough in a case of knowing receipt for a plaintiff to establish that the defendant had knowledge of circumstances which would indicate to an honest and reasonable person that property received was trust property transferred in breach of trust.⁸⁸ Granted too, that the notion of "property" for the purposes of the rule is a broad one.⁸⁹ But in point of fact the plaintiff has not gone close to establishing that Mr Astill knew of facts that indicated that any property he received was transferred in breach of trust. The only "property" he ever received was a 20% share in the intellectual property in the invention and, later, shares in IP3 Systems in place of that interest. That property was not "transferred" from the university, whether in breach of fiduciary duty or at all.

[193] Certainly, Mr Astill acquired the property pursuant to his agreement with Professor Wilson and Dr Feaver to work with them to develop the invention. To that extent it is a little like the 80% interest to which Professor Wilson and Dr Feaver agreed to help themselves. But as opposed to their decision to help themselves, I do not see anything contrary to fiduciary duty or otherwise wrong in Professor Wilson agreeing with Mr Astill that he should have a 20% interest in consideration of his agreement to work to achieve the invention. That can be tested by imagining what the position would have been if Professor Wilson and Dr Feaver had continued to work on behalf of the university and had entered into an agreement with Mr Astill on behalf of the university that Mr Astill assist the university in the development of the invention in return for a 20% share in the invention.

[194] In any event, I do not see that Mr Astill had knowledge of facts sufficient to indicate to an honest and reasonable person that Professor Wilson and Dr Feaver were breaching their duty to the university by entering into the arrangement that he should work with them in return for a 20% interest.

Subsequent developments

[195] I turn now to the events following the development of the invention in March 2000 that bear upon the plaintiff's claim. The first is the work done upon the invention between March 2000, following the lodgment of the provisional patent specification, and March 2001, when the complete patent specification was filed. The second is the work done upon development of the Electron and Ether

87. (1990) 169 CLR 279; 92 ALR 53.

88. *Spangaro v Corporate Investment Australia Funds Management Ltd* (2003) 47 ACSR 285 at [60].

89. *Doneley v Doneley* [1998] 1 Qd R 602 at 612.

software. The third is the transfer by Professor Wilson and Dr Feaver to IP3 Systems of their rights in respect of the invention.

Improvements to the invention between March 2000 and March 2001

[196] Generally speaking, where a fiduciary acquires a specific asset in breach of fiduciary duty the fiduciary will be found to hold the asset upon constructive trust for the benefit of his principal.⁹⁰ And that may be so even though the asset is acquired by means of the skill and expertise of the fiduciary and would not otherwise have been available to the principal. But the matter may be approached differently in cases apart from the acquisition of specific assets. The liability of a fiduciary is not to be transformed into a vehicle for the unjust enrichment of the plaintiff.

[197] Ultimately the aim of the exercise is to reflect as accurately as possible the true measure of the benefit obtained by the fiduciary through breach of his duty. So, if a fiduciary has acquired or established a business in breach of fiduciary duty but a significant proportion of the profits of the business results from the skill, efforts, property and resources of the fiduciary, it tends to be recognised that it would be inequitable to compel the fiduciary to account for all of the profits of the business.⁹¹ And in cases of that kind it may be inappropriate to impose a constructive trust of the whole of the business.

[198] In this case the benefit obtained by Professor Wilson and Dr Feaver by reason of their breach of fiduciary duty derives from the invention of the system. But the value of the benefit is not the same as the value of the system. Although the system is a specific asset, and the asset has a value, only part of that value is due to the opportunity obtained in breach of fiduciary duty. The remainder is due to the time, energy, skill and financial contribution expended by the defendants.

[199] Furthermore, it is not as if the invention itself were presented to Professor Wilson and Dr Feaver and as if they had acquired the invention, as such, in breach of fiduciary duty. In truth they were presented with no more than an opportunity to create the invention, and their breach of fiduciary duty consisted in seizing that opportunity rather than affording the opportunity to the university. Without the investment of Professor Wilson's, Dr Feaver's and Mr Astill's and others' skill and effort and capital and risk, there would not have been any asset. The case is truly one of misappropriation of business opportunity.

[200] In the result both logic and equity dictate that allowance be made for the efforts and outgoings devoted to the invention up until the filing of the complete patent specification in March 2001 and that any interest in the invention which is to be accorded to the plaintiff should be limited to that extent.

[201] I add for the sake of completeness that according to the authorities to which I have already referred, the result may have been different if Professor Wilson and Dr Feaver had acted dishonestly, which is to say, in knowing disregard of the university's interests. But for the reasons already given, I do not consider that that is shown to have been the case. As far as the evidence goes, Professor Wilson and Dr Feaver acted in ignorance of the full extent of their obligations to the university and more probably than not in the positive belief that they were doing nothing wrong.

90. By analogy with the rule in *Keech v Sandford* (1726) Sel Cas t King 61; 25 ER 223; *Warman*, above, at CLR 560; ALR 211.

91. *Hospital Products Ltd v United States Surgical Corp* (1984) 156 CLR 41 at 110; 55 ALR 417 at 464; 4 IPR 291 at 339 per Mason J.

(ii) *Electron and Ether*

5 [202] The next question is whether the university is entitled to any interest in the Electron and Ether computer programs. Should the development of the programs be seen as the exploitation of an opportunity acquired in breach of fiduciary duty? Or should it be seen as the result of activities beyond the scope of the fiduciary duties of Professor Wilson and Dr Feaver, in the nature of a private initiative which they were entitled to undertake? I put aside for the time being the fact that the development of the programs was undertaken by IP3 Systems and that a range of third parties contributed through IP3 Systems to the development of the programs. Given that Professor Wilson and Dr Feaver were the mind of the company at the time of commencement of the development, it is convenient to begin on the basis that they and the company were one.

10 [203] The plaintiff contended that inasmuch as s 40(2)(a) of the Patents Act 1990 required that IP3 Systems disclose the Electron and Ether programs as the best method of performing the invention known at the time of filing the complete patent specification, it must follow that the programs are part of the invention to which it is entitled. I think that argument to be untenable. The invention and the best method known for performing the invention are two different things and there is also a fundamental difference between the description of the functionality of a computer program and the language of the program itself.

20 [204] As has been seen, however, the plaintiff also contended that Professor Wilson and Dr Feaver had breached the fiduciary duties which they owed to the university by arranging for the computer software for the invention to be designed and developed by IP3 Systems in conjunction with PwC, rather than arranging for the same to be designed, developed and owned by the university. I think that argument to be sound.

25 [205] I recognise that the extent to which a court may interfere in the acts and transactions of a fiduciary depends upon the kind of fiduciary in question and otherwise upon the possibility of conflict between personal interest and the duty of that kind of fiduciary. Not every kind of fiduciary relation justifies every kind of interference. A liability to account for a personal benefit or gain obtained or received by use or reason of fiduciary position, opportunity or knowledge will not arise in circumstances where there is not a real and sensible possibility of conflict between personal interest and fiduciary duty.⁹²

30 [206] I also record that, for reasons already given, I do not consider that it was part of Professor Wilson's or Dr Feaver's duties to write computer software for the university and that, subject to any conflict of interest and duty, they were free to do in their own time and at their own expense whatever they chose to do. Hence, but for the fact that they first became associated with the project in their capacities as officers of the university, I consider that they would have been free to enter into an agreement with IP3 Systems and PwC for the development of the software. In those circumstances there would not have been a real and sensible possibility of conflict and interest.

40 [207] But the fact is that Professor Wilson and Dr Feaver were first approached by WTO in their capacities as officers of the university and, as I have found, their actions in excluding the university from the opportunity of developing the invention have the result that they are accountable to the university in respect of

50 92. *Chan v Zaccharia*, above, at CLR 204–5; ALR 437–8 per Deane J; *Re Coomber*; *Coomber v Coomber* [1911] 1 Ch 723 at 728–9.

the invention. If their interests in the invention had not been assigned to IP3 Systems, and subject to due allowance for their contributions to the invention, Professor Wilson and Dr Feaver would now hold and be deemed to have held their interests in the invention, at least to some extent, as constructive trustees for the university.

[208] The software is based upon the invention — it is a method of exploiting the invention — and practically speaking it could not have been developed without knowledge of the invention. Furthermore, the evidence shows that Professor Wilson and Dr Feaver did make use of their knowledge of the invention in developing the programs. In as much as Professor Wilson and Dr Feaver are taken to have held their interests in the invention for the benefit of the university, they should be taken to have held their knowledge of the invention for the benefit of the university. That being the case, I consider that the opportunity to combine with PwC to develop software to give effect to the invention was something which in equity should be taken to have belonged to the plaintiff.

[209] The defendants resist that conclusion. They point to evidence which shows that the university was not and is not in the business of providing venture capital for the sort of enterprise which was involved in writing software of this kind and that, apart from some minor exceptions which were largely to do with in-house infrastructure, the university was not even in the business of writing commercial software. They contend that the writing of commercial software of this kind was so far removed from the scope of university operations that there was not a real and sensible possibility of conflict in Professor Wilson and Dr Feaver taking the opportunity for themselves instead of affording it to the university. They say that it cannot realistically be conceived that the university would have wished to be involved if it had been afforded the opportunity of joining with PwC.

[210] One answer to the defendants' contentions is that it is not ordinarily a defence to breach of fiduciary duty constituted of exploiting an opportunity that the fiduciary's principal may have been unwilling, unlikely or unable to take the opportunity and exploit it. If the opportunity to develop the software be one which was acquired by Professor Wilson and Dr Feaver "by reason of and in the course of their execution of office", it may make no difference that the university lacked the interest or wherewithal to take the opportunity for itself.⁹³ But that is not an altogether adequate answer, in that it is also recognised that a fiduciary's position only inhibits him or her in respect of business opportunities that the principal is actively pursuing or in which the principal might reasonably be expected to be interested.⁹⁴ As Professor Glover put it in the first edition of his work on commercial equity: "characterisation of an opportunity as a fiduciary opportunity overlaps with the characterisation of whether the scope of fiduciary duties extends to the opportunity in question".⁹⁵ It is therefore necessary to decide how likely it is that the university may have been interested in becoming involved in the development of the software with PwC if it had been apprised of the opportunity.

[211] The evidence does not go far enough positively to satisfy me that the university would have wished to be involved. There is no direct evidence to that

93. Ibid.

94. *SEA Food International Pty Ltd v Lam* (1988) 16 ACLC 552 at 557; *Ford's Principles of Corporations Law*, at [9.23]

95. Glover, *Commercial Equity*, above, at [5.46]

effect and I can conceive of a number of reasons — not least budgetary considerations — why it may have chosen not to become involved if told of the opportunity. But that said, I am of opinion that there is a real and sensible possibility that it would have wished to be involved if given the chance to do so.

5 After all, at that time it had an 80% interest in the intellectual property in the invention and the prognosis was that the invention could be extremely valuable if developed in the way in which PwC proposed. It had in the form of Professor Wilson and Dr Feaver two senior and experienced academics who were optimistic and enthusiastic about the possibilities, and who it would have known

10 would be actively involved in the development of the software in the ways in which they were subsequently involved. It would have known that it had amongst its staff and graduate students an array of talent who, with the sort of training and direction that was in fact later given to them, would be able to play a vital role in the writing of the software. And it would have had the assurance that an

15 organisation of the experience and reputation of PwC was sufficiently enthusiastic about the project to devote resources to it in the form of staff, accommodation and development software.

[212] No doubt it would have known too or it would have been told that it was

20 looking at a funding requirement which may have gone as high as several million dollars, and at the possibility that the project would not succeed and, in that event, that the investment could be lost. As I say, I am not positively satisfied that it would have chosen to proceed in light of considerations of that kind. But the evidence shows that it had invested similar amounts in other projects, and with

25 no guarantee of commercial success, and that it was keen if not hungry to expand its commercial partnerships with business in new areas of endeavour related to its academics' skills and experience. I do not think that it is unrealistic or insensible to suppose that the university would have decided to chance its arm in this case.

[213] In my opinion there was a real and sensible possibility of conflict of

30 interest and duty in Professor Wilson and Dr Feaver arranging for the software to be developed by IP3 Systems rather than the university in conjunction with PwC, and thus they acted in breach of fiduciary duty in excluding the university from the opportunity to be involved.

35 *(iii) Transfer to IP3*

[214] Of itself I do not consider that the transfer of rights in the invention to IP3 Systems would have made a great deal of difference. Professor Wilson and Dr Feaver were two of the three directors of the company at the time of transfer, and to that extent constituted the mind of the company. In the circumstances, I

40 think that IP3 Systems would be taken to have acquired Professor Wilson's and Dr Feaver's rights in respect of the invention with full knowledge of all the facts and thus as subject to the equities which affected Professor Wilson's and Dr Feaver's interests in the invention. Accordingly, were it not for the other subsequent developments, I am inclined to think that IP3 Systems would have

45 been as much liable to account to the university in respect of those interests after the transfer occurred as would have Professor Wilson and Dr Feaver before the transfer occurred.⁹⁶

50 ^{96.} *Cook v Deeks* [1916] 1 AC 554 at 563; *Consul Development Pty Ltd v DPC Estates Ltd*, above, at CLR 397; ALR 251; *Ravinder Rohini Pty v Kriziac* (1991) 30 FCR 300 at 312; 105 ALR 593 at 604–5.

[215] But the events which have since occurred have altered the position considerably. Apart from anything else, a number of third parties have invested in the development of the software by way of loans to IP3 Systems and subscriptions for shares in IP3 Systems and a major United States corporation has entered into an agreement to take a significant shareholding in the company and has already paid almost \$560,000 to each of Professor Wilson and Dr Feaver to purchase a large part of their shares in IP3 Systems. IP3 Systems is therefore no longer the alter ego of Professor Wilson and Dr Feaver and it has not been so for some time. It is now a public company with a number of shareholders who invested their money in good faith and so made possible the development of Electron and Ether

[216] In *Disctronics Ltd v Edmonds*⁹⁷ Warren J (as her Honour then was) refused to impose a constructive trust over land the subject of a joint venture development, because she could not be satisfied that it would not unfairly advantage the plaintiffs over third party creditors of the defendant company. Likewise here, I do not think that I can be satisfied that the imposition of a constructive trust over the software would be devoid of the risk of giving the university unfair priority over third party investors. And as will be seen, I do not consider that it is necessary to make such an order in order to do equity to the university.

The relief to be accorded to the plaintiff

[217] The plaintiff seeks a declaration that IP3 Systems holds the invention, the patent applications and the Electron and Ether computer programs on constructive trust for the university, and also a range of additional and alternative remedies including a declaration that Professor Wilson's and Dr Feaver's companies, Jahupa Pty Ltd and Coap Pty Ltd, hold their shares in IP3 Systems on constructive trust for the university; payment to the university of all amounts received on the sale of shares in IP3 Systems; and an account of profits and an award of equitable compensation.

[218] The defendants resist the imposition of any sort of constructive trust. They point out that there is no love lost between the university and the other parties — the level of distrust and animosity exhibited throughout the trial was remarkable — and they contend that, in the circumstances, the imposition of a constructive trust would make the maintenance of a satisfactory working business relationship for the development and exploitation of the software problematic if not practically impossible. In the defendants' submission, such if any remedy as is to be accorded to the plaintiff should be confined to an account of profits.

[219] I made reference before to the need to allow for the skill and effort and capital and risk expended and incurred by Professor Wilson and Dr Feaver in the development of the invention down to March 2000, and in the steps which led to the filing of the complete patent specification; and to my conclusion that it would be inappropriate to impose a constructive trust upon the invention. Plainly there is at least as much need to make an allowance for skill and effort and capital and risk in respect of the Electron and Ether computer programs — the development of the programs was a very substantial undertaking involving many people, great

97. [2002] VSC 454; BC200206302 at [213]

expense and the investment of more than \$5m risk capital — and in my view it would be no less inappropriate to impose a constructive trust over the software than over the invention.

5 [220] In *Warman*⁹⁸ the High Court remarked that one may have expected the plaintiff in that case to have focussed its attack on the shares which the errant fiduciary had acquired in breach of duty to the plaintiff. Upon the facts it was arguable that any amount by which the value of the shares exceeded their cost to the fiduciary represented a capital profit which he had derived by reason of his breach of duty. Thus the fiduciary might have been called to account: either by 10 the imposition of a constructive trust of the shares (subject to the payment by the plaintiff of subscription moneys and other appropriate expenses and allowances) or by being required to pay to the plaintiff an amount of money equal to the value of the shares less the expenses and allowances.

15 [221] By parity of reasoning I conclude that the relief to be accorded to the university in this case should be focussed upon the shares in IP3 Systems which are or have been held by Professor Wilson and Dr Feaver, and by Jahupa Pty Ltd and Coap Pty Ltd. IP3 Systems' only assets are the patent applications and the software. Accordingly, the value of the shares and the proceeds of sale of any of 20 the shares (less appropriate expenses and allowances) represent the gain derived by Professor Wilson and Dr Feaver by reason of their breaches of duty. A remedy focussed on the shares held by Professor Wilson and Dr Feaver and their companies therefore fits the facts of the case and it avoids the imposition of adverse effects on innocent third parties and other interests associated with the 25 development of the software.

[222] In my judgment, Professor Wilson and Dr Feaver, and Jahupa Pty Ltd and Coap Pty Ltd, should be called to account either by the imposition of a constructive trust over their shares in IP3 Systems, or by the payment to the 30 university of an amount of money equal to the value of the shares, and by payment to the university of the proceeds of sale of any shares which they may have already sold, subject in each case to the payment of subscription moneys and just provision for other appropriate expenses and allowances.

35 [223] Consistently with the cases in which it has been held appropriate to order an account of profits subject to due allowance for skill and expenses, the burden should lie upon Professor Wilson and Dr Feaver, and Jahupa Pty Ltd and Coap Pty Ltd, to establish the amount of the allowances which are to be made in their favour, and in the calculation of those amounts it will be necessary for them to give credit for so much of the university's time and resources as they may have 40 devoted to the invention or the development of the software. The university is not to be required to pay again for time and resources for which it has already paid. It is only if and in so far as time and effort were expended out of hours, or by Mr Astill, or otherwise in circumstances which make it just that the university should bear the cost, that an allowance should be made.⁹⁹ Subject, however, to 45 those limitations, I am of opinion that a generous view should be taken of the worth of Professor Wilson's and Dr Feaver's contributions, in terms of both time

98. *Warman International Ltd v Dwyer*, above, at CLR 563-4; ALR 213.

50 99. See, for example, *O'Sullivan v Management Agency Ltd* [1985] 1 QB 428; [1985] 3 All ER 351; (1984) 2 IPR 499; *Kearney, Accounting for a Fiduciary's Gains, in Equity in Commercial Relations*, Ch 7; cf *Guinness Plc v Saunders* [1990] 2 AC 663; [1990] 1 All ER 652.

and money and other contribution to the value of the software, and that expenses incurred should bear interest at an appropriate commercial rate from the date of incurrence to the date of reckoning.

[224] It should also be borne in mind that the Electron and Ether programs represent an aggregation of concepts and systems, of which the invention is only one, and that the software's commercial value may be as much if not more dependent upon the integration module of the program than upon the invention. These and other matters pertinent to assessment will, however, need to be explored in evidence in the subsequent stages of this proceeding.

Conclusion

[225] For the reasons given I conclude that Professor Wilson and Dr Feaver and their companies, Jahupa Pty Ltd and Coap Pty Ltd, should be called to account either by the imposition of a constructive trust of their shares in IP3 Systems and payment of the proceeds of any previous sale of any of their shares, or by the payment to the university of an amount of money equal to the value of the shares and the proceeds of sale of shares already sold (subject in each case to the payment by the plaintiff of subscription moneys and appropriate expenses and allowances).

[226] Subject to what counsel may wish to say concerning the orders to be made, I am also disposed to the view that the assessment of the quantum of the plaintiff's claim against Professor Wilson and Dr Feaver and their companies, Jahupa Pty Ltd and Coap Pty Ltd, should now be referred to a special referee in accordance with O 50 of the Rules of Court for determination in accordance with the principles I have stated; that the costs of the plaintiff's claims against Professor Wilson and Dr Feaver and their companies should be reserved until quantum has been determined; that the plaintiff's claims against all other defendants should now be dismissed; and that the plaintiff should pay all of those other defendants' costs of the proceeding including any reserved costs.

[227] I shall hear counsel on the form of orders.

ALEX DE COSTA
SOLICITOR